

CITY OF NORTHAMPTON, MASSACHUSETTS

**REPORT ON THE EXAMINATION
OF BASIC FINANCIAL STATEMENTS**

FISCAL YEAR ENDED JUNE 30, 2010

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Independent Auditor's Report

To the Honorable Mayor
City of Northampton, Massachusetts

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Northampton, Massachusetts, as of and for the fiscal year ended June 30, 2010, (except for the Northampton Contributory Retirement System, which is as of and for the year ended December 31, 2009), which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Northampton, Massachusetts' management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Northampton, Massachusetts, as of June 30, 2010, (except for the Northampton Contributory Retirement System, which is as of December 31, 2009), and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 10, 2011, on our consideration of the City of Northampton, Massachusetts' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, appearing on pages 3 through 12, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the *Governmental Accounting Standards Board*, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Northampton, Massachusetts' financial statements as a whole. The Supplementary Schedules, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the financial statements. The Supplementary Schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.



Scanlon & Associates, LLC
January 10, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis

As management of the City of Northampton, we offer readers of these financial statements this narrative overview and analysis of the financial activities for the fiscal year ended June 30, 2010

Financial Highlights

- The City's assets exceeded its liabilities by \$95,872,530 (net assets) for the fiscal year reported. This compares to the previous year when assets exceeded liabilities by \$97,261,476 or a decrease of \$1,388,946.
- Total net assets are comprised of the following:
 - (1) Capital assets, net of related debt, of \$73,882,383 include property and equipment, net of accumulated depreciation, and reduced for outstanding debt related to the purchase or construction of capital assets.
 - (2) Net assets of \$9,366,654 are restricted by constraints imposed from outside the City such as grantors, laws or regulations.
 - (3) Unrestricted net assets of \$12,623,493 represent a portion available to maintain the City's continuing obligations to citizens and creditors.
- The City's governmental funds reported total ending fund balance of \$14,994,886 this year. This compares to the prior year ending fund balance of \$14,634,649 showing an increase of \$360,237 during the current year.
- At the end of the current fiscal year, unreserved/undesignated fund balance for the General Fund was \$1,912,835, or 2.38% of total General Fund expenditures including transfers and 2.34% of total General Fund revenues including transfers and a capital lease.
- Total liabilities of the City decreased by \$2,417,860 to \$88,668,442 during the fiscal year.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City of Northampton's basic financial statements. These basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of finances, in a manner similar to private-sector business.

The *statement of net assets* presents information on all assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities include general government, public safety, public works, education, health and human services, culture and recreation, employee benefits and insurance, state assessments and interest. The business-type activities include the sewer, water and solid waste activities.

The government-wide financial statements include not only the City of Northampton itself (known as the *primary government*), but also a legally separate public employee retirement system for which the City of Northampton is financially accountable. Financial information for this *component unit* is reported separately within the fiduciary fund statements.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Fund accounting is used to ensure and demonstrate compliance with finance-related legal requirements. All of the funds can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund statements focus on *near-term inflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financial requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decision. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City of Northampton adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

Proprietary funds. The City maintains one type of proprietary fund.

Enterprise funds are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses enterprise funds to account for its sewer, water and solid waste activities.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of those funds are *not* available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

Notes to the basic financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Financial Highlights

Statement of Net Assets Highlights

Governmental Activities			
	2010	2009	Change
Assets:			
Current assets	\$ 27,683,801	\$ 28,303,890	\$ (620,089)
Noncurrent assets (excluding capital)	15,073,697	16,731,524	(1,657,827)
Capital assets	69,339,089	68,813,565	525,524
Total assets	112,096,587	113,848,979	(1,752,392)
Liabilities:			
Current liabilities (excluding debt and lease)	6,023,533	5,583,384	440,149
Noncurrent liabilities (excluding debt and lease)	9,477,597	6,899,242	2,578,355
Current debt and leases payable	5,797,648	7,260,222	(1,462,574)
Noncurrent debt and leases payable	26,970,580	30,962,575	(3,991,995)
Total liabilities	48,269,358	50,705,423	(2,436,065)
Net Assets:			
Capital assets net of related debt	53,349,297	49,837,075	3,512,222
Restricted	7,706,352	9,291,059	(1,584,707)
Unrestricted	2,771,580	4,015,422	(1,243,842)
Total net assets	63,827,229	63,143,556	683,673

Business-Type Activities			
	2010	2009	Change
Assets:			
Current assets	\$ 16,695,644	\$ 17,531,282	\$ (835,638)
Capital assets	55,748,741	56,967,517	(1,218,776)
Total assets	72,444,385	74,498,799	(2,054,414)
Liabilities:			
Current liabilities (excluding debt)	564,499	954,023	(389,524)
Noncurrent liabilities (excluding debt)	4,539,297	1,145,882	3,393,415
Current debt	4,839,904	5,145,686	(305,782)
Noncurrent debt	30,455,384	33,135,288	(2,679,904)
Total liabilities	40,399,084	40,380,879	18,205
Net Assets:			
Capital assets net of related debt	20,533,086	18,880,560	1,652,526
Restricted	1,660,302	2,419,663	(759,361)
Unrestricted	9,851,913	12,817,697	(2,965,784)
Total net assets	32,045,301	34,117,920	(2,072,619)

Financial Highlights

Statement of Activities Highlights

	Governmental Activities		
	2010	2009	Change
Program Revenues:			
Charges for services	\$ 12,748,735	\$ 11,597,282	\$ 1,151,453
Operating grants and contributions	27,011,793	26,638,277	373,516
Capital grants and contributions	2,303,944	806,328	1,497,616
General Revenues:			
Property taxes	40,845,478	37,503,300	3,342,178
Motor vehicle and other taxes	2,588,350	2,091,289	497,061
Hotel room occupancy taxes	407,727	334,406	73,321
Penalties and interest on taxes	216,568	234,786	(18,218)
Nonrestricted grants and contributions	4,314,435	5,368,380	(1,053,945)
Unrestricted investment income	178,926	326,727	(147,801)
Miscellaneous	3,365	181	3,184
Total revenues	90,619,321	84,900,956	5,718,365
Expenses:			
General government	5,097,789	5,561,605	463,816
Public safety	11,510,624	11,220,396	(290,228)
Public works	3,963,315	4,172,217	208,902
Education	37,236,242	37,811,357	575,115
Health and human services	3,219,594	2,866,136	(353,458)
Culture and recreation	3,115,547	3,216,866	101,319
Employee benefits and insurance	24,803,534	25,837,413	1,033,879
State assessments	2,453,949	2,312,885	(141,064)
Interest	1,531,466	1,664,660	133,194
Total expenses	92,932,060	94,663,535	1,731,475
Contributions to Permanent Funds	5,900	9,050	(3,150)
Transfers, net	2,990,512	2,962,521	27,991
Change in net assets	683,673	(6,791,008)	7,474,681
Net assets - beginning of year	63,143,556	69,934,564	(6,791,008)
Net assets - end of year	\$ 63,827,229	\$ 63,143,556	\$ 683,673

	Business-Type Activities		
	2010	2009	Change
Program Revenues:			
Sewer	\$ 4,547,757	\$ 4,153,289	\$ 394,468
Water	5,155,279	4,633,280	521,999
Solid Waste	3,585,749	3,839,965	(254,216)
Total Revenues	13,288,785	12,626,534	662,251
Expenses:			
Sewer	3,249,620	3,292,872	43,252
Water	3,718,076	4,301,992	583,916
Solid Waste	5,512,338	1,675,043	(3,837,295)
Total expenses	12,480,034	9,269,907	(3,210,127)
Unrestricted investment income	109,142	254,093	(144,951)
Transfers, net	(2,990,512)	(2,962,521)	(27,991)
Change in net assets	(2,072,619)	648,199	(2,720,818)
Net assets - beginning of year	34,117,920	33,469,721	648,199
Net assets - end of year	\$ 32,045,301	\$ 34,117,920	\$ (2,072,619)

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. Assets exceeded liabilities by \$95,872,530 at the close of FY 2010.

Net assets of \$73,882,383 (77%) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment), less any related debt used to acquire those assets that are still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the investment in its capital assets is reported net of its related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the net assets \$9,366,654 (10%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets* \$12,623,493 (13%) may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

The governmental activities net assets increased by \$683,673 during the current fiscal year, which reflects the general fund's results of operations. This was mainly attributed to expenditures exceeding revenues by \$2,312,739, transfers in from the sewer, water and solid waste funds of \$2,990,512 and contributions to permanent funds of \$5,900.

There was a decrease of \$2,072,619 in net assets reported in connection with the sewer, water and solid waste business-type activities. Of this, the sewer department incurred a decrease of \$243,459 and was mainly attributed to budgeting revenues sufficient to cover current operational costs by \$1,326,512, less transfers out to the general fund of \$1,569,971. The water department incurred an increase of \$878,815 and was attributed to budgeting revenues sufficient to cover current operational costs by \$1,488,276, less transfers out to the general fund of \$609,461. The solid waste department incurred a decrease of \$2,707,975 and was attributed to expenditures exceeding revenues by \$1,896,895, less transfers out to the general fund of \$811,080.

Financial Analysis of the Government's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, governmental funds reported combined ending fund balances of \$14,994,886. Of this year-end total, \$1,912,835 is the undesignated general fund balance, indicating availability for continuing City service requirements. Reserved and designated fund balances include \$1,612,802 committed to liquidate encumbrances and carried forward articles remaining from the prior year; \$650,606 in perpetual permanent funds; \$849,684 reserved for the 2011 budget; \$10,324,509 in special revenue funds; \$(495,934) in capital project funds; and \$140,384 in permanent funds. The deficit of \$(495,934) in the capital projects fund represents the management of information systems 5 year plan and public safety capital projects that ended the fiscal year with a negative fund balance due to the fact that interim financing is being accomplished with bond anticipation notes. A total of \$1,618,820 in bond anticipation notes were outstanding for all the capital projects. Permanent financing will be done once the projects near completion. At that time the deficits will be eliminated.

The total ending fund balances of the governmental funds shows an increase of \$360,237 in comparison with the prior year. The increase is attributable to expenditures exceeding revenues by \$2,824,108, transfers in from the business-type activities of \$2,990,512, the execution of a capital lease for \$186,833 and proceeds from the issuance of bonds for \$7,000.

Major Governmental Funds

The *general fund* is the City's primary operating fund and the largest source of day-to-day operations. At the end of the current fiscal year, unreserved/undesignated fund balance of the general fund was \$1,912,835, while total fund balance reached \$3,525,637. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures and revenues and transfers. Unreserved/undesignated fund balance represents 2.38% of total general fund expenditures including transfers and total fund balance represents 4.39% of that same amount. Unreserved/undesignated fund balance represents 2.34%

of total general fund revenues including transfers and the execution of a capital lease and total fund balance represents 4.32% of that same amount.

The fund balance of the general fund increased by \$1,389,256. Of this amount \$4,046,908 was attributed to the expenditures over revenues, \$924,599 of net transfers from the stabilization fund, \$1,334,220 of net transfers from the non-major funds, \$2,990,512 of transfers in from the business-type activities and \$186,833 from the execution of a capital leases.

The *stabilization fund* has accumulated a fund balance of \$712,542, or .89% of total General Fund expenditures including transfers and .87% of total General Fund revenues including transfers and the execution of a capital lease. These funds can be used for general or capital purposes upon City Council approval.

The fund balance of the stabilization fund decreased by \$904,541. Of this amount \$20,058 was attributed to interest income, \$360,000 of transfers in from the general fund and \$1,284,599 of transfers out to the general fund. Please refer to Note 3H for additional information.

Proprietary funds. The proprietary funds statements share the same focus as the government-wide statements, reporting both short-term and long-term information about financial status.

Major Proprietary Funds

The *sewer fund* is the financing and operations of the City's sewer system. The sewer fund shows a decrease of \$243,459 in total operations, the result of operating revenues exceeding operating expenditures by \$1,424,068, interest income of \$28,375, interest expense of \$125,931 and \$1,569,971 of transfers to the general fund.

The *water fund* is the financing and operations of the City's water system. The water fund shows an increase of \$878,815 in total operations, the result of operating revenues exceeding operating expenditures by \$2,209,666, interest income of \$51,073, interest expense of \$861,440, intergovernmental revenue of \$88,977 and \$609,461 of transfers to the general fund.

The *solid waste fund* is the financing and operations of the City's solid waste system. The solid waste fund shows a decrease of \$2,707,975 in total operations, the result of operating expenditures exceeding operating revenues by \$1,844,093, interest income of \$29,694, interest expense of \$82,496 and \$811,080 of transfers to the general fund.

General Fund Budgetary Highlights

The final general fund budget for fiscal year 2010 was \$74,832,133. This was an increase of \$635,506 over the previous year's final budget.

There was a net increase of \$2,466,771 between the original budget and the final amended budget. The increase is primarily attributed to ambulance services of \$1,258,807, veterans benefits and medical expenses of \$491,000, fire department expenses of \$103,750, employee benefits of \$111,000, capital plan of \$2,057, legal services of \$139,000, MIS department expenses of \$7,500, council on aging salaries of

\$13,200, Smith Vocational shop equipment of \$37,018, trash removal of \$23,000, license commission of \$1,000, payroll reserve of \$90,000, city clerk expenses of \$33,266, treasurer's office of \$18,375 and snow and ice expenses of \$160,053.

Of the \$2,800,502 in unexpended/committed budget expenditures \$1,612,802 has been carried over to fiscal year 2011 leaving a surplus of \$1,187,700 to close to undesignated fund balance.

There were negative variances in intergovernmental, interest on taxes and interest on investments of \$154,452, \$18,480 and \$108,495, respectively. The negative variance in state receipts is the result of less funds received for charter tuition reimbursements, police career incentive and exemptions for veterans, blind, surviving spouse and elderly. Interest on investments was a negative variance as a result of a decline in interest rates. Overall the revenues had a surplus of \$7,602.

Overall the variance with the final budget was a positive \$1,195,302 consisting of revenue surplus of \$7,602 and appropriation surpluses of \$1,187,700.

Capital Asset and Debt Administration

Capital Assets. The City's investment in capital assets for its governmental and business-type activities as of June 30, 2010 amounts to \$69,339,089 and \$55,748,741, respectively.

The investment in capital assets includes land, construction in progress, buildings and renovations, machinery, equipment and other and infrastructure.

Major capital events during the current fiscal year in the governmental type funds included the following:

- Conservation land for \$779,552.
- James House renovations for \$174,600.
- City-wide telephone system for \$12,220.
- Fiber optic wide area network for \$65,025.
- Police vehicles and equipment for \$114,205.
- Police facility for \$76,475.
- Fire department vehicles and equipment for \$349,078.
- DPW vehicles for \$299,723.
- Various road and sidewalk improvements for \$539,995.
- Roads for the the Village at hospital hill for \$1,320,630.
- Water Street bridge repairs for \$7,895.
- Highway salt shed for \$1,200.
- DPW roof repairs for \$19,930.
- Leeds school gutter replacement for \$60,000.
- Smith Vocational High School bus for \$40,987.
- Pulaski Park utilities for \$85,780.
- Forbes Library Phase III renovations for \$600,510.

Construction in progress projects remaining at the end of the year consisted of the City-wide telephone system for \$462,032, fiber optic wide area network for \$614,365,

the police facility for \$1,096,750, James House renovations for \$174,600, bridge repairs for \$10,618, highway salt shed for \$1,200, roads for the Village at Hospital Hill for \$1,320,630 and Forbes Library Phase III renovations for \$1,008,120.

Completed construction in progress projects consists of various streets and road work for \$48,435, various sidewalk work for \$97,550, DPW roof repair for \$21,180 and Route 66 slope repairs for \$132,585.

Capital asset additions during the year of \$3,721,979 in the business-type activity consisted of:

- in the sewer fund, a jetting/vacuum vehicle for \$279,804 and the secondary clarifier drive for \$50,235 and construction in progress consists of the wastewater treatment plant effluent pump replacement for \$461,285.
- in the water fund, land for \$215,000, a water vehicle for \$38,170 and additional water mains infrastructure for \$1,487,725 and construction in progress consists of well rehabilitation for \$57,590.
- Solid waste fund, land for \$36,045 and other acquired, expansion and infrastructure improvements of \$1,615,000.

Debt Administration. The City's outstanding governmental debt, as of June 30, 2010, totaled \$32,519,734, of which \$20,485,500 is for school projects, \$7,533,000 is for City building projects, \$350,000 for an aerial ladder fire truck, \$181,000 is for land acquisitions, \$534,000 for storm and surface drains, \$20,000 for recreation facilities, \$46,914 for the Septic V community septic program, \$110,000 for the skate park, \$284,000 for road and sidewalk projects, \$199,000 for departmental equipment, \$1,080,000 for fiber optic network and city wide telephone system, \$22,500 for the department of public works roof repair, \$55,000 for a police department CSI vehicle and \$1,618,820 in bond anticipation notes.

The City's outstanding business-type debt was \$2,335,000 in sewer debt, \$29,551,288 in water debt and \$1,249,000 solid waste debt for a total of \$33,135,288 in business-type debt. The business-type debt has bond anticipation notes of \$660,000 in sewer debt and \$1,500,000 in solid waste debt for a total of \$2,160,000.

The City also has capital leases for ambulances and school department computer equipment. The last lease payment is due in 2014. The City currently owes \$275,257 on the leases consisting of \$248,494 in principal and \$26,763 in interest.

Please refer to notes 3C, 3E, 3F and 3G for further discussion of the major capital and debt activity.

Requests for Information

This financial report is designed to provide a general overview of the City of Northampton's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City Auditor, City Hall, 210 Main Street, Northampton, Massachusetts.

BASIC FINANCIAL STATEMENTS

CITY OF NORTHAMPTON, MASSACHUSETTS
STATEMENT OF NET ASSETS
JUNE 30, 2010

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
CURRENT:			
Cash and Cash Equivalents	\$ 18,518,759	\$ 15,237,904	\$ 33,756,663
Investments	860,394	-	860,394
Receivables, net of allowance for uncollectibles:			
Property Taxes	1,058,957	-	1,058,957
Deferred Property Taxes	138,712	-	138,712
Taxes in Litigation	6,794	-	6,794
Rollback Taxes	1,580	-	1,580
Tax Liens	429,478	-	429,478
Excise Taxes and Other Taxes	252,112	-	252,112
User Charges	-	1,378,107	1,378,107
Departmental	1,020,701	-	1,020,701
Special Assessments	7,994	-	7,994
Loans	153,956	-	153,956
Due from Other Governments	5,234,364	79,633	5,313,997
Total current assets	27,683,801	16,695,644	44,379,445
NONCURRENT:			
Receivables, net of allowance for uncollectibles:			
Due from Other Governments	15,073,697	-	15,073,697
Capital Assets, net of accumulated Depreciation:			
Nondepreciable	16,681,429	4,294,746	20,976,175
Depreciable	52,657,660	51,453,995	104,111,655
Total noncurrent assets	84,412,786	55,748,741	140,161,527
Total Assets	112,096,587	72,444,385	184,540,972
LIABILITIES			
CURRENT:			
Warrants Payable	2,234,502	313,538	2,548,040
Accrued Payroll	1,461,593	-	1,461,593
Payroll Withholdings	548,285	-	548,285
Tax Refund Payable	104,450	-	104,450
Other	87,640	-	87,640
Accrued Interest	375,573	147,673	523,246
Compensated Absences	1,211,490	103,288	1,314,778
Bond Anticipation Notes	1,618,820	2,160,000	3,778,820
Bonds and Leases Payable	4,178,828	2,679,904	6,858,732
Total current liabilities	11,821,181	5,404,403	17,225,584
NONCURRENT:			
Landfill Closure	-	4,200,000	4,200,000
Compensated Absences	2,019,881	53,564	2,073,445
OPEB Obligation Payable	7,457,716	285,733	7,743,449
Bonds and Leases Payable	26,970,580	30,455,384	57,425,964
Total noncurrent liabilities	36,448,177	34,994,681	71,442,858
Total Liabilities	48,269,358	40,399,084	88,668,442
NET ASSETS:			
Invested in Capital Assets, net of related debt	53,349,297	20,533,086	73,882,383
Restricted for:			
Capital Projects	1,122,886	1,660,302	2,783,188
Federal & State Grants	3,280,968	-	3,280,968
Permanent Funds:			
Expendable	140,384	-	140,384
Nonexpendable	650,606	-	650,606
Other Purposes	2,511,508	-	2,511,508
Unrestricted	2,771,580	9,851,913	12,623,493
Total Net Assets	\$ 63,827,229	\$ 32,045,301	\$ 95,872,530

The Notes to the Financial Statements are an integral part of this Statement.

**CITY OF NORTHAMPTON, MASSACHUSETTS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2010**

Program Revenues					Net (Expenses) Revenues and Changes in Net Assets		
	Charges for		Operating		Governmental	Business-Type	
	Expenses	Services	Contributions	Capital		Activities	Total
Governmental Activities:							
General Government	\$ 5,097,789	\$ 2,573,422	\$ 2,001,641	\$ 382,300	\$ (140,426)	\$ -	\$ (140,426)
Public Safety	11,510,624	3,337,006	561,469	-	(7,612,149)	-	(7,612,149)
Public Works	3,963,315	84,334	226,573	1,921,644	(1,730,764)	-	(1,730,764)
Education	37,236,242	6,099,353	13,876,390	-	(17,260,499)	-	(17,260,499)
Health and Human Services	3,219,594	208,531	1,842,196	-	(1,168,867)	-	(1,168,867)
Culture and Recreation	3,115,547	446,089	185,106	-	(2,484,352)	-	(2,484,352)
Employee Benefits and Insurance	24,803,534	-	7,645,931	-	(17,157,603)	-	(17,157,603)
State Assessments	2,453,949	-	-	-	(2,453,949)	-	(2,453,949)
Interest	1,531,466	-	672,487	-	(858,979)	-	(858,979)
Total Governmental Activities	92,932,060	12,748,735	27,011,793	2,303,944	(50,867,588)	-	(50,867,588)
Business-Type Activities:							
Sewer	3,249,620	4,547,757	-	-	-	1,298,137	1,298,137
Water	3,718,076	5,066,302	88,977	-	-	1,437,203	1,437,203
Solid Waste	5,512,338	3,585,749	-	-	-	(1,926,589)	(1,926,589)
Total Primary Government	\$ 105,412,094	\$ 25,948,543	\$ 27,100,770	\$ 2,303,944	(50,867,588)	808,751	(50,058,837)
General Revenues:							
Property taxes					40,845,478	-	40,845,478
Motor vehicle and other taxes					2,588,350	-	2,588,350
Hotel room occupancy taxes					407,727	-	407,727
Penalties & interest on taxes					216,568	-	216,568
Grants & contributions not restricted to specific programs					4,314,435	-	4,314,435
Unrestricted investment income					178,926	109,142	288,068
Miscellaneous					3,365	-	3,365
Contributions to Permanent Funds					5,900	-	5,900
Transfers, net					2,990,512	(2,990,512)	-
Total General Revenues, Contributions and Transfers					51,551,261	(2,881,370)	48,669,891
Change in Net Assets					683,673	(2,072,619)	(1,388,946)
Net Assets:							
Beginning of year					63,143,556	34,117,920	97,261,476
End of year					\$ 63,827,229	\$ 32,045,301	\$ 95,872,530

The Notes to the Financial Statements are an integral part of this Statement.

**CITY OF NORTHAMPTON, MASSACHUSETTS
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2010**

	General Fund	Stabilization Funds	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS				
Cash and Cash Equivalents	\$ 6,582,059	\$ 712,542	\$ 11,224,158	\$ 18,518,759
Investments	-	-	860,394	860,394
Receivables, net of allowance for uncollectibles:				
Property Taxes	1,041,945	-	17,012	1,058,957
Deferred Property Taxes	138,712	-	-	138,712
Taxes in Litigation	6,794	-	-	6,794
Rollback Taxes	1,580	-	-	1,580
Tax Liens	426,974	-	2,504	429,478
Excise Taxes	252,112	-	-	252,112
Departmental	459,671	-	561,030	1,020,701
Special Assessments	-	-	7,994	7,994
Loans	-	-	153,956	153,956
Due from Other Governments	16,999,250	-	3,308,811	20,308,061
Total Assets	\$ 25,909,097	\$ 712,542	\$ 16,135,859	\$ 42,757,498
LIABILITIES AND FUND BALANCE:				
Liabilities:				
Warrants Payable	\$ 1,327,182	\$ -	\$ 907,320	\$ 2,234,502
Accrued Payroll	1,461,593	-	-	1,461,593
Employee Withholdings	548,285	-	-	548,285
Tax Refund Payable	104,450	-	-	104,450
Other	87,640	-	-	87,640
Deferred Revenue:				
Property Taxes	836,945	-	17,012	853,957
Other	18,017,365	-	2,836,000	20,853,365
Bond Anticipation Note Payable	-	-	1,618,820	1,618,820
Total Liabilities	22,383,460	-	5,379,152	27,762,612
Fund Balance:				
Reserved For:				
Encumbrances and continuing appropriations	1,612,802	-	-	1,612,802
Perpetual Permanent Funds	-	-	650,606	650,606
Unreserved:				
Designated for Subsequent Years' Expenditures	-	80,000	769,684	849,684
Undesignated, reported in:				
General Fund	1,912,835	-	-	1,912,835
Special Revenue	-	632,542	9,691,967	10,324,509
Capital Projects	-	-	(495,934)	(495,934)
Permanent Funds	-	-	140,384	140,384
Total Fund Balance	3,525,637	712,542	10,756,707	14,994,886
Total Liabilities and Fund Balance	\$ 25,909,097	\$ 712,542	\$ 16,135,859	\$ 42,757,498

The Notes to the Financial Statements are an integral part of this Statement.

CITY OF NORTHAMPTON, MASSACHUSETTS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2010

	General Fund	Stabilization Funds	Nonmajor Governmental Funds	Total Governmental Funds
Revenues:				
Property Taxes	\$ 39,917,627	\$ -	\$ 826,294	\$ 40,743,921
Intergovernmental	16,556,630	-	11,407,866	27,964,496
Excise and Other Taxes	2,977,260	-	3,851	2,981,111
Licenses, Permits, Fees	8,374,564	-	-	8,374,564
Charges for Services	-	-	4,306,339	4,306,339
Interest on Taxes	214,520	-	2,048	216,568
Investment Income	130,955	20,058	97,772	248,785
Intergovernmental - "On-behalf" Payments	7,559,186	-	-	7,559,186
Other	-	-	639,070	639,070
Total Revenues	75,730,742	20,058	17,283,240	93,034,040
Expenditures:				
Current:				
General Government	4,370,211	-	1,167,170	5,537,381
Public Safety	10,272,579	-	1,248,360	11,520,939
Public Works	2,952,865	-	2,778,931	5,731,796
Education	28,596,972	-	6,450,503	35,047,475
Health and Human Services	1,173,213	-	1,943,551	3,116,764
Culture and Recreation	1,737,174	-	1,954,582	3,691,756
Employee Benefits and Insurance	22,050,591	-	-	22,050,591
Capital Improvements	236,874	-	-	236,874
State Assessments	2,453,949	-	-	2,453,949
Debt Service:				
Principal	4,511,636	-	365,214	4,876,850
Interest	1,421,586	-	172,187	1,593,773
Total Expenditures	79,777,650	-	16,080,498	95,858,148
Excess of Revenues Over (Under) Expenditures	(4,046,908)	20,058	1,202,742	(2,824,108)
Other Financing Sources (Uses):				
Operating Transfers In	5,716,338	360,000	107,007	6,183,345
Operating Transfers Out	(467,007)	(1,284,599)	(1,441,227)	(3,192,833)
Capital Lease	186,833	-	-	186,833
Proceeds from Issuance of Bonds	-	-	7,000	7,000
Total Other Financing Sources (Uses)	5,436,164	(924,599)	(1,327,220)	3,184,345
Net Change in Fund Balances	1,389,256	(904,541)	(124,478)	360,237
Fund Balances, Beginning of Year	2,136,381	1,617,083	10,881,185	14,634,649
Fund Balances, End of Year	\$ 3,525,637	\$ 712,542	\$ 10,756,707	\$ 14,994,886

The Notes to the Financial Statements are an integral part of this Statement.

CITY OF NORTHAMPTON, MASSACHUSETTS
Reconciliation of the Governmental Funds Balance Sheet
Total Fund Balances to the Statement of Net Assets
For the Year Ended June 30, 2010

Total Governmental Fund Balances		\$ 14,994,886
Capital Assets (net) used in governmental activities are not financial resources and, therefore, are not reported in the funds.		69,339,089
Revenues are recognized on an accrual basis of accounting instead of a modified accrual basis.		21,707,322
Long Term liabilities are not due and payable in the current period and, therefore, are not reported in governmental funds:		
Bonds and Leases Payable	\$ (31,149,408)	
Other Post Employment Benefits Payable	(7,457,716)	
Compensated Absences	<u>(3,231,371)</u>	(41,838,495)
In statement of activities, interest is accrued on outstanding long term debt, whereas in governmental funds interest is not reported until due.		<u>(375,573)</u>
Net Assets of Governmental Activities		<u><u>\$ 63,827,229</u></u>

The Notes to the Financial Statements are an integral part of this Statement.

CITY OF NORTHAMPTON, MASSACHUSETTS
Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
For the Year Ended June 30, 2010

Net Change in Fund Balances - Total Governmental Funds	\$	360,237
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Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense:

Capital Outlay Purchases	\$ 4,547,805		
Depreciation	(4,022,281)		525,524

Revenue in the Statement of Activities that do not provide current financial resources are fully deferred in the Statement of Revenues, Expenditures and Changes in Fund Balances. Therefore, the recognition of revenue for various types of accounts receivable (i.e., real estate and personal property, motor vehicle excise, etc.) differ between the two statements. This amount represents the net change in deferred revenue.

(2,408,819)

The issuance of long-term debt (e.g., bonds and leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds.

Neither transaction, however, has any effect on net assets:

Repayment of Debt and Lease Principal	4,967,222		
Proceeds from Bonds and Notes	(7,000)		
Capital Lease Financing	(186,833)		4,773,389

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds:

Net Change in Compensated Absences	298,329		
Net Change in Other Post Employment Benefits	(2,927,294)		
Net Change in Accrued Interest on Long-Term Debt	62,307		(2,566,658)

Change in Net Assets of Governmental Activities	\$	683,673
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The Notes to the Financial Statements are an integral part of this Statement.

**CITY OF NORTHAMPTON, MASSACHUSETTS
STATEMENT OF REVENUES AND EXPENDITURES -
BUDGETARY BASIS - (NON-GAAP) -
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2010**

	Budgeted Amounts		Actual	Amounts	Variance with
	Original	Final	Budgetary	Carried	Final Budget
	Budget	Budget	Basis	Forward	Positive
				to Next Year	(Negative)
Revenues:					
Property Taxes	\$ 39,739,487	\$ 39,954,089	\$ 40,057,327	\$ -	\$ 103,238
Intergovernmental	16,711,082	16,711,082	16,556,630	-	(154,452)
Excise and Other Taxes	2,935,401	2,935,401	2,977,260	-	41,859
Licenses, Permits, Fees	8,230,632	8,230,632	8,374,564	-	143,932
Interest on Taxes	233,000	233,000	214,520	-	(18,480)
Investment Income	239,450	239,450	130,955	-	(108,495)
Total Revenues	68,089,052	68,303,654	68,311,256	-	7,602
Expenditures:					
Current:					
General Government	4,302,033	4,662,974	4,370,211	126,837	165,926
Public Safety	8,876,287	10,232,967	10,085,746	55,350	91,871
Public Works	3,019,187	3,197,382	2,952,865	147,700	96,817
Education	28,926,211	28,926,211	28,596,972	329,239	-
Health and Human Services	707,602	1,233,938	1,173,213	9,105	51,620
Culture and Recreation	1,803,108	1,762,708	1,737,174	-	25,534
Employee Benefits and Insurance	15,091,653	15,187,653	14,491,405	60,650	635,598
Capital Improvements	1,047,103	1,121,598	236,874	883,921	803
State Assessments	2,519,977	2,519,977	2,453,949	-	66,028
Debt Service:					
Principal	4,635,112	4,549,636	4,511,636	-	38,000
Interest	1,437,089	1,437,089	1,421,586	-	15,503
Total Expenditures	72,365,362	74,832,133	72,031,631	1,612,802	1,187,700
Excess of Revenues Over (Under) Expenditures	(4,276,310)	(6,528,479)	(3,720,375)	(1,612,802)	1,195,302
Other Financing Sources (Uses):					
Operating Transfers In (Out)	3,230,206	5,249,324	5,249,331	-	7
Total Other Financing Sources (Uses)	3,230,206	5,249,324	5,249,331	-	7
Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	(1,046,104)	(1,279,155)	1,528,956	(1,612,802)	1,195,309
Budgetary Fund Balance - Beginning of Year	1,896,131	1,896,131	1,896,131	-	-
Budgetary Fund Balance - End of Year	\$ 850,027	\$ 616,976	\$ 3,425,087	\$ (1,612,802)	\$ 1,195,309

The Notes to the Financial Statements are an integral part of this Statement.

CITY OF NORTHAMPTON, MASSACHUSETTS
Reconciliation of Revenues and Expenditures
from Budgetary Basis to GAAP Basis
For the Year Ended June 30, 2010

	<u>Revenues</u>	<u>Expenditures</u>
Reported on a Budgetary Basis	\$ 68,311,256	\$ 72,031,631
Net Decrease in Revenue from Recording Refund Taxes Payable	(82,050)	-
Recognition of intergovernmental Revenue - "on behalf payments"	7,559,186	-
Recognition of Expenditures - "on behalf payments"	-	7,559,186
Capital Lease	-	186,833
Net Decrease in Revenue from Recording 60-Day Receipts	(57,650)	-
Reported on a GAAP Basis	<u>\$ 75,730,742</u>	<u>\$ 79,777,650</u>

The Notes to the Financial Statements are an integral part of this Statement.

CITY OF NORTHAMPTON, MASSACHUSETTS
STATEMENT OF NET ASSETS - PROPRIETARY FUNDS
JUNE 30, 2010

Business-Type Activities Enterprise Funds				
	Sewer Fund	Water Fund	Solid Waste Fund	Total
ASSETS				
CURRENT:				
Cash and Cash Equivalents	\$ 2,553,581	\$ 6,526,277	\$ 6,158,046	\$ 15,237,904
User Charges, net of allowance for uncollectibles	446,894	366,338	564,875	1,378,107
Due from Other Governments	-	79,633	-	79,633
Total current assets	3,000,475	6,972,248	6,722,921	16,695,644
NONCURRENT:				
Capital Assets, net of accumulated Depreciation:				
Nondepreciable	466,194	1,574,071	2,254,481	4,294,746
Depreciable	4,720,320	37,122,064	9,611,611	51,453,995
Total noncurrent assets	5,186,514	38,696,135	11,866,092	55,748,741
Total Assets	8,186,989	45,668,383	18,589,013	72,444,385
LIABILITIES				
CURRENT:				
Accounts Payable	135,076	135,525	42,937	313,538
Accrued Interest	27,972	103,937	15,764	147,673
Compensated Absences	57,358	29,891	16,039	103,288
Bond Anticipation Notes Payable	660,000	-	1,500,000	2,160,000
Bonds Payable	253,000	2,243,904	183,000	2,679,904
Total current liabilities	1,133,406	2,513,257	1,757,740	5,404,403
NONCURRENT:				
Landfill Closure	-	-	4,200,000	4,200,000
Compensated Absences	30,232	14,774	8,558	53,564
OPEB Obligation Payable	142,479	85,178	58,076	285,733
Bonds Payable	2,082,000	27,307,384	1,066,000	30,455,384
Total noncurrent liabilities	2,254,711	27,407,336	5,332,634	34,994,681
Total Liabilities	3,388,117	29,920,593	7,090,374	40,399,084
NET ASSETS:				
Invested in Capital Assets, net of related debt	2,191,514	9,224,480	9,117,092	20,533,086
Restricted for Capital	469,148	901,816	289,338	1,660,302
Unrestricted	2,138,210	5,621,494	2,092,209	9,851,913
Total Net Assets	\$ 4,798,872	\$ 15,747,790	\$ 11,498,639	\$ 32,045,301

The Notes to the Financial Statements are an integral part of this Statement.

CITY OF NORTHAMPTON, MASSACHUSETTS
PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2010

	Business-Type Activities Enterprise Funds			
	Sewer Fund	Water Fund	Solid Waste Fund	Total
Operating Revenues:				
Charges for Services	\$ 4,515,380	\$ 4,953,122	\$ 3,469,848	\$ 12,938,350
Other	32,377	113,180	115,901	261,458
Total Operating Revenues	4,547,757	5,066,302	3,585,749	13,199,808
Operating Expenses:				
Salaries & Wages	736,789	769,120	355,445	1,861,354
Operating Expenses	1,573,319	901,096	4,491,323	6,965,738
Depreciation	813,581	1,186,420	583,074	2,583,075
Total Operating Expenses	3,123,689	2,856,636	5,429,842	11,410,167
Operating Income (Loss)	1,424,068	2,209,666	(1,844,093)	1,789,641
Non-Operating Revenues (Expenses):				
Interest Income	28,375	51,073	29,694	109,142
Intergovernmental	-	88,977	-	88,977
Interest Expense	(125,931)	(861,440)	(82,496)	(1,069,867)
Total Non-Operating Revenues (Expenses)	(97,556)	(721,390)	(52,802)	(871,748)
Income (Loss) Before Operating Transfers	1,326,512	1,488,276	(1,896,895)	917,893
Operating Transfers:				
Transfers In (Out)	(1,569,971)	(609,461)	(811,080)	(2,990,512)
Total Operating Transfers	(1,569,971)	(609,461)	(811,080)	(2,990,512)
Change in Net Assets	(243,459)	878,815	(2,707,975)	(2,072,619)
Net Assets at Beginning of Year	5,042,331	14,868,975	14,206,614	34,117,920
Net Assets at End of Year	\$ 4,798,872	\$ 15,747,790	\$ 11,498,639	\$ 32,045,301

The Notes to the Financial Statements are an integral part of this Statement.

**CITY OF NORTHAMPTON, MASSACHUSETTS
PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2010**

	Business-Type Activities Enterprise Funds			
	Sewer Fund	Water Fund	Solid Waste Fund	Total
Cash Flows From Operating Activities:				
Receipts from Customers and Users	4,472,526	4,920,305	3,519,838	\$ 12,912,669
Receipts from Other Revenues	32,377	113,180	115,901	261,458
Payments to Vendors	(1,523,604)	(1,082,635)	(1,385,528)	(3,991,767)
Payments to Employees	(725,854)	(756,215)	(356,958)	(1,839,027)
Net Cash Provided by (Used for) Operating Activities	2,255,445	3,194,635	1,893,253	7,343,333
Cash Flows from Noncapital Financing Activities:				
Transfers from (to) Other Funds	(1,569,971)	(609,461)	(811,080)	(2,990,512)
Net Cash Provided by (Used for) Noncapital Financing Activities	(1,569,971)	(609,461)	(811,080)	(2,990,512)
Cash Flows from Capital and Related Financing Activities:				
Proceeds from the issuance of Bonds and Notes	-	-	150,000	150,000
WPAT Project Drawdowns	-	114,384	-	114,384
Intergovernmental	-	88,977	-	88,977
Acquisition and Construction of Capital Assets	(745,089)	(330,760)	(288,450)	(1,364,299)
Principal Payments on Bonds and Notes	(323,235)	(2,577,451)	(235,000)	(3,135,686)
Interest Expense	(127,119)	(851,503)	(83,652)	(1,062,274)
Net Cash Provided by (Used for) Capital and Related Financing Activities	(1,195,443)	(3,556,353)	(457,102)	(5,208,898)
Cash Flows from Investing Activities:				
Investment Income	28,375	51,073	29,694	109,142
Net Cash Provided by (Used for) Investing Activities	28,375	51,073	29,694	109,142
Net Increase (Decrease) in Cash and Cash Equivalents	(481,594)	(920,106)	654,765	(746,935)
Cash and Cash Equivalents at Beginning of Year	3,035,175	7,446,383	5,503,281	15,984,839
Cash and Cash Equivalents at End of Year	\$ 2,553,581	\$ 6,526,277	\$ 6,158,046	\$ 15,237,904

**CITY OF NORTHAMPTON, MASSACHUSETTS
PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2010**

	Business-Type Activities Enterprise Funds			
	Sewer Fund	Water Fund	Solid Waste Fund	Total
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used For) Operating Activities:				
Operating Income (Loss)	\$ 1,424,068	\$ 2,209,666	\$ (1,844,093)	1,789,641
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:				
Depreciation	813,581	1,186,420	583,074	2,583,075
Change in Assets and Liabilities:				
Increase (Decrease) in Warrants Payable	(6,210)	(214,973)	(179,177)	(400,360)
Increase (Decrease) in Compensated Absences	10,935	12,905	(1,513)	22,327
Increase (Decrease) in OPEB Obligation Payable	55,925	33,434	22,796	112,155
Increase (Decrease) in Landfill Closure	-	-	3,262,176	3,262,176
Decrease (Increase) in User Charges Receivable	(42,854)	(32,817)	49,990	(25,681)
Total Adjustments	831,377	984,969	3,737,346	5,553,692
Net Cash Provided by (Used for) Operating Activities	\$ 2,255,445	\$ 3,194,635	\$ 1,893,253	\$ 7,343,333

The Notes to the Financial Statements are an integral part of this Statement.

**CITY OF NORTHAMPTON, MASSACHUSETTS
FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET ASSETS
JUNE 30, 2010**

	NORTHAMPTON		
	Employees Retirement System Pension Trust Fund (as of December 31, 2009)	Private Purpose Trust Funds	Agency Funds
ASSETS			
Cash and Cash Equivalents	\$ 203,399	\$ 1,394	\$ 2,634,511
Investments	69,833,506	1,193,418	-
Accrued Interest and Dividends	286,593	-	-
Accounts Receivable	12,486	-	-
Total Assets	70,335,984	1,194,812	2,634,511
LIABILITIES			
Warrants Payable	26,435	-	4,641
Due to Others	-	-	5,924
Due to Student Groups	-	-	79,421
Refinancing BAN Proceeds Escrow	-	-	2,440,000
Deposits and Escrows	-	-	104,525
Total Liabilities	26,435	-	2,634,511
NET ASSETS:			
Held in Trust for Pension Benefits and Other Purposes	\$ 70,309,549	\$ 1,194,812	\$ -

The Notes to the Financial Statements are an integral part of this Statement.

**CITY OF NORTHAMPTON, MASSACHUSETTS
FIDUCIARY FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2010**

	NORTHAMPTON	
	Employees	
	Retirement	
	System Pension	
	Trust Fund	
	(as of December	
	31, 2009)	
		Private
		Purpose
		Trust Funds
Additions		
Contributions:		
Employers	\$ 4,022,582	\$ -
Plan Members	2,168,120	-
Transfers/Reimbursements from Other Systems	272,407	-
Federal Grant Reimbursements	15,956	-
Commonwealth of Massachusetts - COLA	128,018	-
Private Donations	-	52,505
Total Contributions	6,607,083	52,505
Investment Income:		
Interest & Dividends	2,245,890	38,338
Net Change in Fair Value of Investments	8,098,869	54,612
Total Investment Earnings	10,344,759	92,950
Less Investment Expense	(275,441)	-
Net Investment Earnings	10,069,318	92,950
Total Additions	16,676,401	145,455
Deductions:		
Benefit Payments to Plan Members and Beneficiaries	6,261,931	-
Refunds to Members	183,276	-
Transfers to Other Systems	308,198	-
Educational Scholarships	-	10,491
Human Services	-	5,000
General Expenses	137,302	8,750
Total Deductions	6,890,707	24,241
Change in Net Assets	9,785,694	121,214
Net Assets at Beginning of Year	60,523,855	1,073,598
Net Assets at End of Year	\$ 70,309,549	\$ 1,194,812

The Notes to the Financial Statements are an integral part of this Statement.

CITY OF NORTHAMPTON, MASSACHUSETTS
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The City of Northampton, Massachusetts is a municipality in which citizens elect the mayor, seven council members and two at-large council members.

For financial reporting purposes, the City has included all funds, organizations, account groups, agencies, boards, commissions and institutions. The City has also considered all potential component units for which it is financially accountable as well as other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the basic financial statements to be misleading or incomplete.

Blended component units are entities that are legally separate from the City, but are so related that they are, in substance, part of the City's operations and so data from these units are combined with data of the primary government. The following component unit is blended within the primary government in the fiduciary funds:

The Northampton Contributory Retirement System (the System) was established to provide retirement benefits to City employees, the City Housing Authority, employees, and their beneficiaries. The System is governed by a five-member board comprised of the City Auditor (ex-officio), two members elected by the System's participants, one member appointed by the Mayor and one member appointed by the Board members. The System is presented using the accrual basis of accounting and is reported as a pension trust fund in the fiduciary fund financial statements.

The system did not issue a separate audited financial statement. The System issues a publicly available unaudited financial report in accordance with guidelines established by the Commonwealth of Massachusetts' (Commonwealth) Public Employee Retirement Administration Commission (PERAC). That report may be obtained by contacting the System located at 210 Main Street, Northampton, Massachusetts.

The City is responsible for electing the governing board and/or committee members of the Northampton Housing Authority. This related organization is excluded from the financial reporting entity because the City's accountability does not extend beyond the City electing the board and/or committee members. Audited financial statements are available from the respective organization. A description of the related organization is as follows:

Northampton Housing Authority - A public housing agency that provides housing assistance to eligible and qualified low and moderate income families, the elderly and handicapped. The housing authority is an autonomous and self-sufficient agency under the State Executive Office of Communities and Development. The City has no significant influence over management, budget or policies of the authority.

CITY OF NORTHAMPTON, MASSACHUSETTS
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2010

The accompanying basic financial statements of the City of Northampton, Massachusetts (the City) have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is the recognized standard-setting body for establishing governmental accounting and financial reporting principles. The significant City accounting policies are described herein.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., statement of net assets and the statement of changes in net assets) report information on all of the non-fiduciary activities of the primary government and its component units. Governmental activities, which are primarily supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which are supported primarily by user fees and charges.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. Non-major funds are aggregated and displayed in a single column.

Major Fund Criteria

Major funds must be reported if the following criteria are met:

- If the total assets, liabilities, revenues or expenditures/expenses of an individual governmental fund are at least 10 percent of the corresponding element (assets, liabilities, etc.) for all funds of that category or type (total governmental funds),

and

- If the total assets, liabilities, revenues or expenditures/expenses of the individual governmental funds are at least 5 percent of the corresponding element for all governmental funds combined.

Additionally, any other governmental fund that management believes is particularly significant to the basic financial statements may be reported as a major fund.

CITY OF NORTHAMPTON, MASSACHUSETTS
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2010

Fiduciary funds are reported by fund type.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis* of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis* of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon thereafter to be used to pay current liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal year. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, excises and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria is met. Expenditure driven grants recognize revenue when the qualifying expenditures are incurred and all other grant requirements are met.

The government reports the following major governmental funds:

The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *stabilization fund* is a special revenue fund used to account for the accumulation of resources to provide general and/or capital reserves, and planning and development's ongoing and future operations.

The government reports the following major proprietary funds:

The *sewer fund* is used to account for the sewer activities.

The *water fund* is used to account for the water activities.

CITY OF NORTHAMPTON, MASSACHUSETTS
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2010

The *solid waste fund* is used to account for the integrated solid waste management program.

Additionally, the government reports the following fund types:

Fiduciary fund financial statements are reported using the flow of economic resources measurement focus and use the accrual basis of accounting. Fiduciary funds are used to account for assets held in a trustee capacity for others that cannot be used to support the government programs.

The *Northampton Employees Retirement System Pension trust fund* is used to account for the activities of the System, which accumulates resources to provide pension benefits to eligible retirees and their beneficiaries.

The *private-purpose trust fund* is used to account for trust arrangements, other than those properly reported in the permanent fund, under which principal and investment income exclusively benefit individuals, private organizations, or other governments.

The *agency fund* is used to account for assets held in a purely custodial capacity.

The nonmajor governmental fund consists of other special revenue, capital projects, and permanent funds that are aggregated and presented in the *nonmajor governmental funds* column on the governmental funds financial statements. The following describes the general use of these funds types:

The *special revenue fund* is used to account for the proceeds of specific revenue sources (other than permanent funds or capital projects funds) that are restricted by law or administrative action to expenditures for specified purposes.

The *capital projects fund* is used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by Enterprise and Trust Funds).

The *permanent fund* is used to account for financial resources that are legally restricted to the extent that only earnings, not principal, may be used for purposes that support the governmental programs.

Private sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

CITY OF NORTHAMPTON, MASSACHUSETTS
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2010

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise fund are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

D. Cash and Cash Equivalents

Cash balances from all funds, except those required to be segregated by law, are combined to form a consolidation of cash.

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with an original maturity of three months or less from the date of acquisition. The City maintains a cash and investment pool that is available for use by all funds. Each fund's portion of this pool is reflected on the combined financial statements under the caption, "cash and cash equivalents".

Excluding the permanent funds, investment income derived from major and nonmajor governmental funds is legally assigned to the general fund unless otherwise directed by Massachusetts General Laws (MGL).

E. Investments

State and local statutes place certain limitations on the nature of deposits and investments available to the City. Deposits in any financial institution may not exceed certain levels within the financial institution. Non-fiduciary fund investments can be made in securities issued by or unconditionally guaranteed by the U. S. Government or agencies that have a maturity of less than one year from the date of purchase and repurchase agreements guaranteed by such securities with maturity dates of no more than 90 days from the date of purchase.

Investments in the Contributory Retirement System consist of marketable securities, bonds and short-term money market investments. All investments are carried at market value.

F. Receivables

The recognition of revenues related to accounts receivable reported in the government-wide financial statements and fund financial statements are reported under the accrual basis of accounting and the modified accrual basis of accounting, respectively.

Property Taxes, Deferred Property Taxes, Taxes in Litigation, Rollback Taxes, and Tax Liens

Property taxes are based on assessments as of January 1, 2009 and include betterments, special assessments and liens. Taxes are used to finance the operations of the City for the fiscal year July 1st to June 30th. By law, all taxable property in the Commonwealth of Massachusetts must be assessed at 100% of fair cash value. Taxes are due and payable

CITY OF NORTHAMPTON, MASSACHUSETTS
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2010

on July 1st. The City has accepted the quarterly tax payment system. Under the quarterly tax payment system, the assessors make a preliminary tax commitment based on the prior year's net tax and may not exceed, with limited exceptions, fifty percent of that amount. The collector must mail preliminary tax bills each year by July 1st. The preliminary tax is payable in two equal installments. The first installment is due on August 1st and the second installment is due on November 1st. After the City sets the tax rate, the assessors make the actual tax commitment. If actual bills are mailed on or before December 31st, the balance remaining is payable in two equal installments. The first installment is due on February 1st and the second installment is due on May 1st. If bills are mailed after December 31st, the entire balance is not due until May 1st or thirty days after the bills were mailed, whichever is later. Any betterments, special assessments and other charges are added to the actual bills. Interest at the rate of 14% is charged on the amount of any preliminary tax or actual tax installment payment that is unpaid and delinquent and is charged only for the number of days the payment is actually delinquent. If actual tax bills are mailed after December 31st, interest will be computed from May 1st, or the payment due date, whichever is later. The City has an ultimate right to foreclose on property for which taxes have not been paid. Property taxes levied are recorded as receivables.

Revenues from property taxes are recognized in the fiscal year for which they have been levied.

The City mailed preliminary tax bills for the fiscal year 2010 on July 1, 2009 that were due on August 3, 2009 and November 2, 2009 and actual bills on December 30, 2009 that were due on February 1, 2010 and May 3, 2010.

The Commonwealth of Massachusetts electorate in November, 1980, passed legislation known as Proposition 2 1/2, in order to limit the amount of revenue to be raised by taxation. The purpose of the legislation was to control the levy of taxes that are assessed to property owners of a City. The legal levy limit under Proposition 2 1/2 for fiscal year 2010 is \$40,377,336 consisting of a base of \$39,156,687 and a debt exclusion of \$1,220,649. The total amount raised by taxation was \$40,366,537.

The allowance for uncollectible accounts is estimated based on historical trends and specific account analysis.

Excise Taxes

Excise taxes consist of motor vehicle excise and vessel excise. Excise taxes are assessed annually for each vehicle and vessel registered in the City, and are recorded as receivables in the fiscal year of levy. The Commonwealth is responsible for reporting the number of vehicles registered and the fair value of those vehicles. The Board of Assessors of the City is responsible for determining the value of each vessel.

The tax calculation is the fair market value of the vehicle or vessel multiplied by the \$25 per \$1,000 of value and \$10 per \$1,000 of valuation, respectively.

The allowance for uncollectibles is estimated based on historical trends and specific account analysis.

CITY OF NORTHAMPTON, MASSACHUSETTS
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2010

User Charges

User charges and fees consist of sewer, water and solid waste and are levied monthly based on individual meter readings and are subject to penalties and interest if they are not paid by the respective due date. Water and sewer liens are processed each year and are included as a lien on the property owner's tax bill. Water charges, sewer charges, solid waste and liens are recorded as receivables in the fiscal year of the levy.

The allowance for uncollectibles is estimated based on historical trends and specific account analysis.

Departmental

Departmental receivables consist primarily of veterans services, school department fees, ambulance and other general government receipts.

The allowance for uncollectibles is estimated based on historical trends and specific account analysis.

Special Assessments

Special assessments consists of Title V septic betterments in the governmental funds and sewer betterments in the business-type funds.

These receivables are considered 100% collectible and therefore do not report an allowance for uncollectibles.

Loans

The Community Development Block Grant office administers loan programs that provide housing assistance to residents of the City and commercial loans to businesses. Upon issuance, a receivable is recorded for the principal amount of the loan.

These receivables are considered 100% collectible and therefore do not report an allowance for uncollectibles.

Due from Other Governments

Various federal and state grants for operating and capital purposes are applied for and received annually. For non-expenditure driven grants, revenue is recognized as soon as all eligibility requirements imposed by the provider have been met. For expenditure driven grants, revenue is recognized when the qualifying expenditures are incurred and all other grant requirements are met.

These receivables are considered 100% collectible and therefore do not report an allowance for uncollectibles.

CITY OF NORTHAMPTON, MASSACHUSETTS
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2010

G. Capital Assets

Capital assets, which include land, construction in progress, buildings and improvements, machinery, equipment and other, and infrastructure assets (e.g. roads, water mains, sewer mains, and similar items), are reported in the applicable governmental or business-type activity column of the government-wide financial statements. Capital assets are recorded at historical cost or at estimated historical cost if actual historical cost is not available. Donated capital assets are recorded at the estimated fair market value.

All purchase of equipment in excess of \$15,000 and construction costs of in excess of \$50,000 are capitalized at the date of acquisition or construction, respectively, with expected useful lives of greater than one year.

Capital assets (excluding land) are depreciated on a straight-line basis. The estimated useful lives of fixed assets are as follows:

Capital Asset Type	Years
Buildings and improvements	20-40
Machinery, equipment and other	3-15
Infrastructure	20-50

The cost of normal maintenance and repairs that do not add to the value of the assets or materially extend asset lives are not capitalized and are treated as expenses when incurred. Improvements are capitalized.

H. Interfund Transfers

During the course of its operations, resources are permanently reallocated between and within funds. These transactions are reported as operating transfers in and operating transfers out.

In the government-wide financial statements, operating transfers between and within governmental funds are eliminated from the governmental activities in the statement of net assets. Any residual balances outstanding between the governmental activities and business-type activities are reported in the statement of activities as "Transfers net."

In the fund financial statements, operating transfers between and within funds are not eliminated from the individual fund statements and are reported as operating transfers in and operating transfers out.

I. Deferred Revenue

Deferred revenue at the fund financial statement level represents billed receivables that do not meet the available criterion in accordance with the current financial resources measurement focus and the modified accrual basis of accounting. Deferred revenue is

CITY OF NORTHAMPTON, MASSACHUSETTS
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2010

recognized as revenue in the conversion to the government-wide (full accrual) financial statements.

J. Net Assets and Fund Equity

Net assets are reported as restricted when amounts are not available for appropriation or are legally restricted by outside parties for a specific future use.

Net assets have been “restricted for” the following:

“Capital projects” represents amounts restricted for capital purposes.

“Federal and state grants” represents amounts restricted by the federal and state government for various programs.

“Permanent funds – expendable” represents amounts held in trust for which the expenditures are restricted by various trust agreements.

“Permanent funds – nonexpendable” represents amounts held in trust for which only investment earnings may be expended.

“Other purposes” represents restrictions placed on assets from outside parties.

Fund balances are reserved for amounts that are not available for appropriation or are legally restricted by outside parties for a specific future use. Designations of fund balances represent tentative management plans that are subject to change. Fund balances have been “reserved for” the following:

“Encumbrances and continuing appropriations” represents amounts obligated under purchase orders, contracts and other commitments for expenditures that are being carried over to the ensuing fiscal year.

“Perpetual Permanent Funds” represent amounts held in trust for which only investment earnings may be expended.

“Designated for subsequent years’ expenditures” represents the amount of fund balance appropriated to be used for expenditures in the subsequent year’s budget. The City includes the following in the reserve:

CITY OF NORTHAMPTON, MASSACHUSETTS
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2010

Major Governmental Funds:

Stabilization fund	80,000
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Nonmajor Governmental Funds:

Municipal waterways fund	\$	4,086	
Ambulance	\$	586,512	
Conservation wetlands fees		4,086	
Sale of cemetery lots		5,000	
Comcast 1 - Net reserve		165,000	
Cemetery perpetual care fund		5,000	769,684
			\$ 849,684

K. Long-term Debt

Long-term debt is reported as liabilities in the government-wide and proprietary fund statement of net assets.

The face amount of governmental funds long-term debt is reported as other financing sources.

L. Compensated Absences

The City grants to employees sick and vacation leave in varying amounts based upon length of service and in accordance with various individual union contracts. Upon retirement, termination, or death, certain employees are compensated for unused vacation and sick leave (subject to certain limitations) at 20% of their current rates of pay.

M. Post Retirement Benefits

In addition to providing pension benefits, health insurance coverage is provided for retired employees and their survivors in accordance with MGL, Chapter 32, on a pay-as-you-go basis. The cost of providing health insurance is recognized by recording the employer's 50%, 60% and 80% share for PPO plans and HMO plans, respectively, insurance premiums in the general fund in the fiscal year paid. For the fiscal year ending June 30, 2010, the expense/expenditure totaled approximately \$3,096,000. There were approximately 672 participants eligible to received benefits at June 30, 2010.

N. Use of Estimates

The preparation of basic financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure for contingent assets and liabilities at the date of the basic financial statements and the reported amounts of revenues and expenditures/expenses during the fiscal year. Actual results could vary from estimates that were used.

CITY OF NORTHAMPTON, MASSACHUSETTS
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2010

2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

An annual budget is adopted for the City's General Fund. Although legislative approval is required for the acceptance of grants, capital projects and borrowing authorizations, annual budgets are not prepared for any other fund; therefore comparison of budget to actual is only presented for the General Fund.

The City must establish its property tax rate each year so that the property tax rate levy will comply with the limits established by Proposition 2 1/2, as amended, and also equal the sum of (a) the aggregate of all annual appropriations for expenditures, plus (b) provision for prior year deficits, if any, less (c) the aggregate of all non property tax revenues estimated to be received, including available funds. Supplemental appropriations may be made from available funds after the setting of the tax rate. Appropriations may be transferred between departments with the City Council approval.

The City follows these procedures in establishing the General Fund budgetary data as reflected in the financial statements:

Every board and committee in charge of a department shall annually, on the first day of December, send to the mayor and to the committee on finances an estimate in detail of the appropriations needed to enable the department to properly perform its duties.

Hearings are conducted and the Mayor then submits a budget to the City Council.

The budget is legally enacted by vote of the City Council prior to the end of the fiscal year.

Throughout the fiscal year, any unencumbered appropriation, balance or portion thereof, may be transferred from one department, commission, board or office, to another by City Council vote.

Massachusetts law requires cities and towns to provide a balanced budget. Section 23 of Chapter 59 of the Massachusetts General Laws states, in part,

"The assessors shall annually assess taxes to an amount not less than the aggregate of all amounts appropriated, granted or lawfully expended by their respective towns (cities) since the preceding annual assessment and not provided for therein . . ."

For fiscal year 2010, the City incurred a final budget deficit of \$1,279,155 for the General Fund.

The City voted from the following sources to fund the deficit budget during the fiscal year:

CITY OF NORTHAMPTON, MASSACHUSETTS
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2010

Unreserved fund balance:	
Overlay surplus	\$ 233,051
Reserved for deficits	(470,552)
Prior year's encumbrances	1,516,656
	<u>\$ 1,279,155</u>

B. Deficit Fund Equity

The following funds had deficits at June 30, 2010 as measured by the balances of unreserved fund balance.

- The arts lottery council grants fund has a deficit of \$290. The deficit will be eliminated upon the future receipt of grant funds.
- The dog revolving fund has a deficit of \$5,932. The deficit will be eliminated upon the future receipt of funds.
- The stormwater management program has a deficit of \$888. The deficit will be eliminated upon the future receipt of funds.
- The capital projects fund has two individual projects that are overdrawn for a total of \$1,126,642. These deficits will be eliminated upon the issuance of permanent debt.

3. DETAILED NOTES

A. Deposits and Investments

Custodial Credit Risks – Deposits – City Financials

Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned. The government does not have a deposit policy for custodial credit risk. Deposits at June 30, 2010 were \$35,436,924. Of these, \$8,842,036 were exposed to custodial credit risk as uninsured and uncollateralized.

Custodial Credit Risks – Deposits – Northampton Contributory Retirement System

Custodial credit risk is the risk that in the event of a bank failure, the System's deposits may not be returned. The System does not have a deposit policy for custodial credit risk. Deposits at December 31, 2009 were \$315,419. None was exposed to custodial credit risk as uninsured and uncollateralized.

CITY OF NORTHAMPTON, MASSACHUSETTS
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2010

Investment Policies – City Financials

Investments of funds, except for trust funds, are generally restricted by Massachusetts General Laws, Chapter 44, Section 55. That statute permits investments of available revenue funds and bond and note proceeds in term deposits and certificates of deposit of banks and trust companies, in obligations issued or unconditionally guaranteed by the federal government or an agency thereof with a maturity of not more than one year, in repurchase agreements with a maturity of not more than 90 days secured by federal or federal agency securities, in participation units in the Massachusetts Municipal Depository Trust ("MMDT"), or in shares in SEC-registered money market funds with the highest possible rating from at least one nationally recognized rating organization.

The MMDT is an investment pool created by the Commonwealth under the supervision of the State Treasurer's office. According to the State Treasurer, the Trust's investment policy is designed to maintain an average weighted maturity of 90 days or less and is limited to high-quality, readily marketable fixed income instruments, including U. S. Government obligations and highly-rated corporate securities with maturities of one year or less.

As of June 30, 2010, the City had the following investments and maturities:

Investment Type	Fair Value	Investment Maturities (in Years)		
		Less Than 1	1 to 5	6 to 10
Debt Securities:				
U. S. Government agencies	\$ 353,082	\$ -	\$ 201,812	\$ 151,270
Corporate bonds	204,981	-	204,981	-
Money market mutual funds	26,884	26,884	-	-
	<u>584,947</u>	<u>26,884</u>	<u>\$ 406,793</u>	<u>\$ 151,270</u>
Other Investments:				
Equity mutual funds	1,035,566			
Equity securities - Domestic	287,113			
Certificates of Deposits	146,186			
	<u>\$ 2,053,812</u>			

Custodial Credit Risks - Investments

For an investment, custodial risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Of the City's \$2,053,812, none are uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department and in the City's name. The City has no policy on custodial credit risk.

Interest Rate Risk

The City does have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

CITY OF NORTHAMPTON, MASSACHUSETTS
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2010

Credit Risk

The City's exposure to credit risk as of June 30, 2010 is as follows:

Related Debt Instruments	Fair Value	Moody's Quality Ratings			Not Rated
		Aaa	Baa1	B1	
Debt Securities:					
U. S. government agencies	\$ 353,082	\$ 353,082	\$ -		\$ -
Corporate bonds	204,981	-	157,668	47,313	-
Money market mutual fund	26,884	-	-		26,884
	<u>\$ 584,947</u>	<u>\$ 353,082</u>	<u>\$ 157,668</u>	<u>\$ 47,313</u>	<u>\$ 26,884</u>

Concentration of Credit Risk

The City places no limit on the amount the City may invest in one issuer. More than 5 percent of the City's investments are in the Federal Home Loan Mortgage Corporation, the Federal National Mortgage Association and Verizon Penn corporate bond amounting to 4.92%, 12.27% and 7.68% respectively of the total City's investments.

Investment Policies – Northampton Contributory Retirement System City Financials

Under PERAC regulations, every retirement board shall file a statement of investment objectives with PERAC. Among the information to be filed are the investment policy, the rate of return expected, the expected level of risk, the asset mix, the degree of diversification, and other pertinent financial information.

Specific policies for investments of funds for the system are as follows:

- A. The assets shall be diversified among fixed income, equity, and short term investment and may include:
 - i. up to 3% of the total market value of the portfolio in limited partnerships, such as, but not limited to, venture capital investments;
 - ii. up to 8% of the total equity market value of the portfolio in foreign investments.
- B. The asset allocation of the portfolio shall lie within the range of 45%-65% common stock and 35%-55% fixed income as is permitted by an exemption issued to the Board.
- C. Equity investments shall comply with the following policies as well as relevant PERAC regulations including any modifications permitted by an exemption issued to the Board.
 - i. At least 75% of the market value of equity investments shall be in companies for which the market value of the outstanding shares is at least \$100 million at time of purchase.
 - ii. The investment in any one holding shall not exceed 5% of the total book value of equity investments at the time of purchase.

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- iii. All equity investments, including ADRs as permitted by an exemption issued to the Board, must be in securities traded on a major exchange or on the NASDAQ.
 - iv. The beta (a measure of equity volatility) shall average no more than 1.15 annually.
 - v. No investment shall be made in a company with less than a five year operating history.
 - vi. The holdings within the equity portfolio shall be diversified such that:
 - a. the equity portfolio shall consist of no fewer than 25 holdings;
 - b. no single industry shall account for more than 20% of the total market value;
 - c. at no time shall small capitalization stocks represent less than 10% of the total equity market value nor more than 50%.
 - vii. Recognizing that equity turnover may vary with market conditions and the specific characteristics of individual issues, turnover shall be targeted at no more than 150% per year.
- D. Fixed income investments shall comply with the following policies as well as relevant PERAC regulations including any modifications permitted by an exemption issued to the Board.
- i. At least 65% of the market value of the fixed income portfolio shall be in holdings rated no less than A or equivalent.
 - ii. No more than 5% of the portfolio shall have a rating less than investment grade, and no bond shall be below a rating of B. Split-rated bonds, i.e. bonds rated investment grade by at least one agency but rated below investment grade by another, are included in this 5%.
 - iii. No holding shall be purchased unless there is at least \$50 million par of the issue outstanding at the time of purchase.
 - iv. No more than 5% of the total market value of the portfolio shall be invested in the direct (as opposed to asset-backed or mortgage-backed) debt obligations of any one fixed income issuer except that issues of the U.S. government or agencies that have the full faith and credit of the U.S. government may be held without limit. The investment Manager may exceed that level, up to a maximum of 10%, however, if he or she feels it is prudent to do so as long as the Investment Manager promptly advises the Secretary to the Board of the situation so that the Board may review the investment at its next meeting.
 - v. Fixed income holdings which are downgraded below BBB or Baa shall be sold within one year of the downgrading unless the exemption issued to the Board permits retention.
 - vi. The adjusted modified duration of the fixed income portfolio shall be within the range of 75% to 125% of the duration of the Index.
 - vii. Excluding purchases and sales of issues of the U.S. government or agencies that have the full faith and credit of the U.S. government, the turnover of the fixed income portfolio shall not exceed 150% per year.
 - viii. The holdings within the fixed income portfolio shall be diversified such that:
 - a. the holdings shall be diversified across sectors and industries with no single industry representing more than one third the market value

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- b. except that issues of the U.S. government or agencies that have the full faith and credit of the U.S. government may be held without limit.
- c. the fixed income portfolio will consist of no fewer than 20 holdings
- d. at no time shall more than 80% of the market value of the holdings nor less than 20% have an adjusted modified duration longer than the Index.

E. Cash and cash equivalents shall be invested in any or all of the following instruments: money market funds, repurchase agreements, short term instruments issued by the Treasury and other agencies of the U.S. government, commercial paper rated P1 and corporate debt maturing within one year at date of purchase.

As of June 30, 2010, the System had the following investments and maturities:

Investment Type	Fair Value	Investment Maturities (in Years)			
		Less Than 1	1 to 5	6 to 10	More than 10 Years
Debt Securities:					
U. S. Treasury obligations	\$ 7,958,719	\$ -	\$ 399,492	\$ 1,722,474	\$ 5,836,753
U. S. Government agencies	4,564,258	1,057,971	783,384	630,444	2,092,459
Corporate debt	18,522,356	603,822	10,564,621	5,058,822	2,295,091
	<u>31,045,333</u>	<u>\$ 1,661,793</u>	<u>\$ 11,747,497</u>	<u>\$ 7,411,740</u>	<u>\$ 10,224,303</u>
Other Investments:					
Equity securities - Domestic	36,322,870				
Pooled investment funds	2,783,867				
Money market mutual funds	(318,564)				
	<u>\$ 69,833,506</u>				

Custodial Credit Risks - Investments

For an investment, custodial risk is the risk that, in the event of the failure of the counterparty, the System will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Of the System's \$69,833,506 in investments, none are uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department but not in the System's name. The System has no policy on custodial credit risk.

Interest Rate Risk

The System does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk

The System limits investments in bonds with a minimum quality rating of Baa or equivalent as rated by one or more recognized bond rating services, however, 10% of the market value of fixed income investments may be invested in bonds with a minimum quality rating of Ba or equivalent as rated by one or more recognized bond rating services

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The System's exposure to credit risk as of June 30, 2010 is as follows:

Related Debt Instruments	Fair Value
<u>Moody's Quality Ratings</u>	
<i>U. S. Treasury Obligations:</i>	
AAA	\$ 7,958,719
<i>U. S. Government Agencies:</i>	
AAA	4,564,258
<i>Corporate Debt:</i>	
AAA	1,447,423
AA	6,178,021
A	4,160,075
BAA	5,712,341
BA	1,024,496
	<u>\$ 31,045,333</u>

Concentration of Credit Risk

The System may invest up to 15% of the account's assets in high yield securities on an opportunistic basis. There is no one investment that is 5 percent of the City's investments.

B. Receivables

At June 30, 2010, receivables for the individual major governmental funds, non-major governmental funds, and fiduciary funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	Gross Amount	Allowance for Uncollectibles	Net Amount
Major and nonmajor governmental funds:			
Property taxes	\$ 1,415,102	\$ (356,145)	\$ 1,058,957
Deferred property taxes	138,712	-	138,712
Taxes in litigation	6,794	-	6,794
Rollback taxes	1,580	-	1,580
Tax liens	429,478	-	429,478
Excise taxes and other taxes	940,362	(688,250)	252,112
Departmental	1,167,779	(147,078)	1,020,701
Special assessments	7,994	-	7,994
Loans	153,956	-	153,956
Due from other governments	20,308,061	-	20,308,061
	<u>\$ 24,569,818</u>	<u>\$ (1,191,473)</u>	<u>\$ 23,378,345</u>

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At June 30, 2010, receivables for the sewer, water and solid waste enterprise consist of the following:

	Gross Amount	Allowance for Uncollectibles	Net Amount
Sewer Fund:			
User charges	\$ 616,144	\$ (169,250)	\$ 446,894
Special assessments	-	-	-
Water Fund:			
User charges	461,359	(95,021)	366,338
Due from other governments	79,633	-	79,633
Solid Waste Fund:			
User charges	789,875	(225,000)	564,875
	<u>\$ 1,947,011</u>	<u>\$ (489,271)</u>	<u>\$ 1,457,740</u>

The composition of amounts due from other governments as of June 30, 2010 for governmental funds and the business-type activities as follows:

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General Fund:

Commonwealth of Massachusetts:

School Building Authority - School Building Assistance - Capital portion	\$ 16,731,522	
Department of Housing & Community Development: Community Development Block Grant	6,834	
Department of Revenue - Meals tax	58,870	
<i>Various Towns -</i>		
Smith Vocational High School tuitions	202,024	\$ 16,999,250

Nonmajor Governmental Funds:

U. S. Department of Housing and Urban Development:

Community Development Block Grant	445,208
Supportive Housing Program	646,395

U. S. Department of Education -

School title grants	90,573
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Commonwealth of Massachusetts -

Massachusetts Department of Elementary and Secondary Education:	
School grants	1,742

Massachusetts Cultural Council:	
Creative school grant	3,757

Massachusetts Department of Transportation:	
Chapter 90 funds	2,041,274
Pleasant Street grant	21,829

Executive Office of Public Safety and Homeland Security - Fire services staffing grant	37,033
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<i>Smith Vocational and Agricultural High School Trustees</i>	21,000	3,308,811
	<u>\$ 20,308,061</u>	

Business-Type Funds:

Water Fund:

Massachusetts Water Pollution Abatement Trust:

Water pollution abatement project	<u>\$ 79,633</u>
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Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period.

The balance of the general fund deferred revenues account is equal to all of June 30, 2010 receivable balances, except real and personal property taxes that are accrued for subsequent 60 day collections.

At the end of the current fiscal year, the deferred revenue for property taxes is \$853,957.

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The various components of the other deferred revenue reported in the governmental funds were as follows:

General Fund:

Deferred property taxes	\$	138,712	
Taxes in litigation		6,794	
Rollback taxes		1,580	
Tax Liens		426,974	
Excise Taxes		252,112	
Departmental		459,671	
Due from other governments		16,731,522	\$ 18,017,365

Nonmajor Governmental Funds:

Tax Liens	\$	2,504	
Departmental		561,030	
Special assessments		7,994	
Loans		153,956	
Due from other governments		2,110,516	2,836,000
			<u>\$ 20,853,365</u>

C. Capital Assets

Governmental Activities

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land	\$ 11,213,562	\$ 779,552	\$ -	\$ 11,993,114
Construction in progress	2,655,545	2,332,520	(299,750)	4,688,315
Total capital assets not being depreciated	13,869,107	3,112,072	(299,750)	16,681,429
Capital assets being depreciated:				
Buildings and improvements	91,434,920	81,180	-	91,516,100
Machinery, equipment and other	10,082,100	803,993	(116,821)	10,769,272
Infrastructure	16,159,300	850,310	-	17,009,610
Total capital assets being depreciated	117,676,320	1,735,483	(116,821)	119,294,982
Less accumulated depreciation for:				
Buildings	43,003,288	2,848,708	-	45,851,996
Machinery, equipment and other	7,133,467	924,634	(116,821)	7,941,280
Infrastructure	12,595,107	248,939	-	12,844,046
Total accumulated depreciation	62,731,862	4,022,281	(116,821)	66,637,322
Total capital assets being depreciated, net	54,944,458	(2,286,798)	-	52,657,660
Total governmental activities capital assets, net	\$ 68,813,565	\$ 825,274	\$ (299,750)	\$ 69,339,089

CITY OF NORTHAMPTON, MASSACHUSETTS
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Business-Type Activities

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land	\$ 3,524,826	\$ 251,045	\$ -	\$ 3,775,871
Construction in progress	2,876,555	795,280	(3,152,960)	518,875
Total capital assets not being depreciated	6,401,381	1,046,325	(3,152,960)	4,294,746
Capital assets being depreciated:				
Building and Renovations	21,537,564	1,615,000	-	23,152,564
Machinery, equipment and other	2,404,487	317,974	-	2,722,461
Infrastructure	71,421,293	1,537,960	-	72,959,253
Total capital assets being depreciated	95,363,344	3,470,934	-	98,834,278
Less accumulated depreciation for:				
Building and Renovations	13,235,233	675,738	-	13,910,971
Machinery, equipment and other	1,651,587	271,834	-	1,923,421
Infrastructure	29,910,388	1,635,503	-	31,545,891
Total accumulated depreciation	44,797,208	2,583,075	-	47,380,283
Total capital assets being depreciated, net	50,566,136	887,859	-	51,453,995
Total business-type activities capital assets, net	\$ 56,967,517	\$ 1,934,184	\$ (3,152,960)	\$ 55,748,741

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental Activities:

General government	\$ 400,917
Public safety	600,034
Public works	391,474
Education	2,364,295
Health and human services	120,334
Culture and recreation	145,227
Total depreciation expense - governmental activities	<u>\$ 4,022,281</u>

Business-Type Activities:

Sewer fund	\$ 813,581
Water fund	1,186,420
Solid waste fund	583,074
Total depreciation expense - business-type activities	<u>\$ 2,583,075</u>

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D. Interfund Receivables, Payables and Transfers

Interfund transfers for the fiscal year ended June 30, 2010, are summarized as follows:

Transfers Out:	Transfers In:			Total
	General fund	Stabilization fund	Nonmajor governmental funds	
General fund	\$ -	\$ 360,000	\$ 107,007	\$ 467,007
Stabilization fund	1,284,599	-	-	1,284,599
Nonmajor governmental funds	1,441,227	-	-	1,441,227
Business-type activities	2,990,512	-	-	2,990,512
Total transfers out	<u>\$ 5,716,338</u>	<u>\$ 360,000</u>	<u>\$ 107,007</u>	<u>\$ 6,183,345</u>

E. Lease

The City has entered into lease agreements as lessee for financing the acquisition of ambulances and school department computer equipment. The lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of their future minimum lease payments as of the inception date.

The assets acquired through the capital leases are as follow:

	Governmental Activities
Assets:	
Machinery, equipment and other	\$ 643,243
Less: Accumulated Depreciation	(420,269)
Total	<u>222,974</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2010, are as follows:

Year Ending June 30,	Governmental Activities
2011	\$ 117,607
2012	52,550
2013	52,550
2014	52,550
Total minimum lease payments	<u>\$ 275,257</u>
Less: amount representing interest	(26,763)
Present value of minimum lease payments	<u>\$ 248,494</u>

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F. Short-Term Financing

Under the general laws of the Commonwealth and with the appropriate local authorization the City is authorized to borrow funds on a temporary basis to (1) fund current operations prior to the collection of revenues, by issuing revenue anticipation notes, (2) fund grants prior to reimbursements, by issuing grant anticipation notes, and (3) fund capital projects costs incurred prior to selling permanent debt by issuing bond anticipation notes.

Details related to the short-term debt activity of the governmental and business-type activities are as follows:

Purpose	Interest Rate	Final Maturity Date	Balance June 30, 2009	Renewed/ Issued	Retired/ Redeemed	Outstanding June 30, 2010
Governmental Activities:						
<i>Bond Anticipation Notes:</i>						
Sidewalks	2.50%	02/12/10	180,000	-	180,000	-
Police station	2.50%	02/12/10	2,020,000	-	2,020,000	-
Drainage	2.50%	02/12/10	50,000	-	50,000	-
City technology plan	1.25%	06/30/10	50,000	-	50,000	-
Sidewalk construction and and pavement resurfacing	1.25%	02/01/11	-	193,000	-	193,000
Drainage	1.25%	02/01/11	-	100,000	-	100,000
Police station construction	1.25%	02/01/11	-	1,100,000	-	1,100,000
City technology plan	1.25%	02/01/11	-	225,820	-	225,820
Sidewalk construction and and pavement resurfacing	1.20%	02/18/10	-	180,000	180,000	-
Drainage	1.20%	02/18/10	-	50,000	50,000	-
Police station planning	1.20%	02/18/10	-	520,000	520,000	-
Police station construction	1.20%	02/18/10	-	1,500,000	1,500,000	-
City technology plan	1.20%	02/18/10	-	40,000	40,000	-
Total Governmental Activities			\$ 2,300,000	\$ 3,908,820	\$ 4,590,000	\$ 1,618,820

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Purpose	Interest Rate	Final Maturity Date	Balance June 30, 2009	Renewed/ Issued	Retired/ Redeemed	Outstanding June 30, 2010
Business-Type Activities:						
Bond Anticipation Notes:						
Water Fund:						
Water well chlorination and upgrade	1.25%	06/30/10	\$ 695,000	\$ -	\$ 695,000	\$ -
Total Water Fund			<u>695,000</u>	<u>-</u>	<u>695,000</u>	<u>-</u>
Sewer Fund:						
Wastewater effluent pump # 1	1.25%	06/30/10	350,000	-	350,000	-
Wastewater effluent pump # 2	1.25%	06/30/10	310,000	-	310,000	-
Wastewater effluent pump	1.25%	02/01/11	-	660,000	-	660,000
Total Sewer Fund			<u>660,000</u>	<u>660,000</u>	<u>660,000</u>	<u>660,000</u>
Solid Waste Fund:						
Landfill planning	2.50%	02/12/10	150,000	-	150,000	-
Landfill land acquisition	1.25%	06/30/10	1,200,000	-	1,200,000	-
Landfill planning	1.20%	02/18/10	-	150,000	150,000	-
Landfill planning	1.25%	02/01/11	-	300,000	-	300,000
Landfill land acquisition	1.25%	02/01/11	-	1,200,000	-	1,200,000
Total Solid Waste Fund			<u>1,350,000</u>	<u>1,650,000</u>	<u>1,500,000</u>	<u>1,500,000</u>
Total Business-Type Activities			<u>\$ 2,705,000</u>	<u>\$ 2,310,000</u>	<u>\$ 2,855,000</u>	<u>\$ 2,160,000</u>

G. Long Term Debt

General Obligation Bonds

The City issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for both governmental and business-type activities.

General obligation bonds currently outstanding of the governmental type fund are as follows:

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	Interest Rate	Date Issued	Final Maturity Date	Original Amount Issued	Outstanding June 30, 2010
Inside Debt:					
Library building remodeling	3.40%	10/15/02	09/01/19	\$ 830,000	\$ 457,000
Library	4.25%	01/19/05	01/19/12	\$ 350,000	100,000
Land acquisition	Various	11/15/04	10/15/23	\$ 72,000	32,000
Building remodeling - school	Various	11/15/04	10/15/23	\$ 767,000	547,000
Recreation facilities	Various	11/15/04	10/15/23	\$ 45,000	20,000
Forbes library	Various	11/15/04	10/15/23	\$ 35,000	10,000
Repairs to city buildings	Various	11/15/04	10/15/23	\$ 40,000	15,000
Aerial ladder fire truck	Various	11/15/04	10/15/23	\$ 720,500	350,000
Municipal Purpose Loan of 2007:					
Departmental equipment	3.75-4.0%	03/15/07	03/15/12	\$ 769,500	179,000
Ryan Road/SVHS parking repaving	3.75-4.0%	03/15/07	03/15/12	\$ 425,000	125,000
Ridgewood Terrace sidewalks	3.75-4.0%	03/15/07	03/15/12	\$ 71,600	26,000
School energy	3.75-4.0%	03/15/07	03/15/16	\$ 60,000	39,000
SVHS shop computers	3.75-4.0%	03/15/07	03/15/16	\$ 300,000	189,000
Ridgewood Terrace roads	3.75-4.0%	03/15/07	03/15/16	\$ 173,400	113,000
Veteran's field skatepark	3.75-4.0%	03/15/07	03/15/22	\$ 140,000	110,000
Senior center	3.75-4.0%	03/15/07	03/15/26	\$ 3,910,000	3,292,000
Forbes library remodeling	3.75-4.0%	03/15/07	03/15/26	\$ 982,900	817,000
Schools and DPW garage remodeling	3.75-4.0%	03/15/07	03/15/26	\$ 415,000	343,000
DPW salt/sand shed	3.75-4.0%	03/15/07	03/15/26	\$ 173,600	143,000
Storm and surface drains	3.75-4.0%	03/15/07	03/15/26	\$ 602,000	506,000
Refinanced:					
Police land acquisition	Various	11/15/04	10/15/18	\$ 229,000	103,000
Land acquisition - Gerogianna	Various	11/15/04	10/15/18	\$ 76,000	46,000
Storm and surface drains	Various	11/15/04	10/15/18	\$ 40,000	28,000
Fire station	Various	11/15/04	10/15/18	\$ 2,325,000	2,300,000
Lilly Library - Additional expansion	4.75%	03/15/06	03/15/12	\$ 73,000	24,000
Massachusetts Water Pollution Abatement Trust:					
Title V Community Septic Management Program Bond	N/A	10/25/00	08/01/18	\$ 93,837	46,914
Municipal Purpose Loan of 2009:					
City-wide fiber optic network	2.0-5.0%	02/12/09	02/01/29	\$ 710,000	565,000
City-wide telephone system	2.0-5.0%	02/12/09	02/01/29	\$ 648,000	515,000
Police department CSI vehicle	2.0-5.0%	02/12/09	02/01/29	\$ 85,000	55,000
Fire department equipment	2.0-5.0%	02/12/09	02/01/29	\$ 34,000	20,000
DPW roof repairs	2.0-5.0%	02/12/09	02/01/29	\$ 25,000	22,500
DPW sidewalks	2.0-5.0%	02/12/09	02/01/29	\$ 50,000	30,000
Ryan Road bridge repairs	2.0-5.0%	02/12/09	02/01/29	\$ 125,000	115,000
School energy conservation	2.0-5.0%	02/12/09	02/01/29	\$ 70,000	60,000
Various school projects	2.0-5.0%	02/12/09	02/01/29	\$ 674,000	562,500
Library preservation	2.0-5.0%	02/12/09	02/01/29	\$ 500,000	375,000
Total Inside Debt					\$ 12,280,914

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	Interest Rate	Date Issued	Final Maturity Date	Original Amount Issued	Outstanding June 30, 2010
Outside Debt:					
High school roof replacement	3.40%	10/15/02	09/01/17	\$ 400,000	\$ 211,000
High school remodeling	3.40%	10/15/02	09/01/19	\$ 5,565,000	3,287,000
Refinanced:					
School project	Various	11/15/04	10/15/19	\$ 18,508,000	15,122,000
Total Outside Debt					18,620,000
Total Inside Debt					12,280,914
Total Governmental Type Debt					<u>\$ 30,900,914</u>

The annual principal and interest payments to retire all general obligation long-term debt outstanding as of June 30, 2010 are as follows:

Governmental Type Activities

Year	Principal	Interest	Total
2011	\$ 4,074,214	\$ 1,306,710	\$ 5,380,924
2012	3,807,214	1,149,683	4,956,897
2013	3,624,214	997,558	4,621,772
2014	3,401,213	834,721	4,235,934
2015	3,051,212	679,141	3,730,353
2016-2020	10,817,847	1,641,896	12,459,743
2021-2025	1,812,000	273,949	2,085,949
2026-2028	313,000	13,418	326,418
	<u>\$ 30,900,914</u>	<u>\$ 6,897,076</u>	<u>\$ 37,797,990</u>

CITY OF NORTHAMPTON, MASSACHUSETTS
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2010

General obligation bonds currently outstanding of the business-type fund are as follows:

	Interest Rate	Date Issued	Final Maturity Date	Original Amount Issued	Outstanding June 30, 2010
Inside Debt:					
Sewer:					
Refinanced:					
Sewer	Various	11/15/04	10/15/19	\$ 2,539,000	\$ 2,335,000
Total Inside Debt					<u>2,335,000</u>
Outside Debt:					
Water:					
Water Filtration Plant	Various	11/15/04	10/15/24	\$ 1,000,000	751,000
Route 66 Water Mains	Various	11/15/04	10/15/24	\$ 775,000	575,000
Water	3.75-4.00%	03/15/07	03/15/26	\$ 1,100,000	923,000
Route 66 Water Mains	2.00-5.00%	02/12/09	02/01/29	\$ 1,200,000	1,145,000
Massachusetts Water Pollution					
Abatement Trust:					
Water Filtration Plant	2.00%	02/01/07	08/01/24	\$ 2,241,713	1,952,028
Water Filtration Plant	2.00%	12/14/06	07/15/26	\$ 9,612,283	8,418,078
Water Filtration Plant	2.00%	12/14/06	07/15/26	\$ 14,000,000	12,260,678
Water Filtration Plant	2.00%	03/18/09	07/15/28	\$ 1,250,000	1,194,504
Refinanced:					
Water	Various	11/15/04	10/15/19	\$ 3,814,000	2,332,000
					<u>29,551,288</u>
Solid Waste:					
Refinanced:					
Landfill	Various	11/15/04	10/15/16	\$ 1,829,000	1,249,000
					<u>1,249,000</u>
Total Outside Debt					<u>\$ 30,800,288</u>
Total Business Type Debt					<u>\$ 33,135,288</u>

CITY OF NORTHAMPTON, MASSACHUSETTS
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Business-Type Activities

Year	Principal	Interest	Total
2011	\$ 2,243,904	\$ 915,888	\$ 3,159,792
2012	2,265,511	846,383	3,111,894
2013	2,266,666	772,267	3,038,933
2014	2,261,604	695,243	2,956,847
2015	2,278,221	620,214	2,898,435
2016-2020	9,724,783	2,121,607	11,846,390
2021-2025	8,653,963	921,285	9,575,248
2026-2029	3,440,636	100,654	3,541,290
	<u>\$ 33,135,288</u>	<u>\$ 6,993,541</u>	<u>\$ 40,128,829</u>

A summary of the changes in governmental activities and business-type long term debt during the year is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due within One Year
Governmental activities:					
Bond Payable:					
General obligation bonds	\$35,662,412	\$ -	\$ 4,808,311	\$ 30,854,101	\$ 4,069,000
Massachusetts Water Pollution Abatement Trust bonds	52,127	-	5,314	46,813	5,214
Lease payable	208,258	186,833	146,597	248,494	104,614
Compensated absences	3,529,700	73,445	371,774	3,231,371	1,211,490
OPEB obligation payable	4,530,422	2,927,294	-	7,457,716	-
Governmental activity Long-term liabilities	<u>\$43,982,919</u>	<u>\$ 3,187,572</u>	<u>\$ 5,331,996</u>	<u>\$ 41,838,495</u>	<u>\$ 5,390,318</u>
Business type activities:					
Bond Payable:					
General obligation bonds	\$10,584,588	\$ -	\$ 1,274,588	\$ 9,310,000	\$ 1,058,000
Massachusetts Water Pollution Abatement Trust bonds	24,991,386	-	1,166,098	23,825,288	1,185,904
Compensated absences	134,525	23,842	1,515	156,852	103,288
OPEB obligation payable	173,578	112,155	-	285,733	-
Business-type activity long term Long-term liabilities	<u>\$35,884,077</u>	<u>\$ 135,997</u>	<u>\$ 2,442,201</u>	<u>\$ 33,577,873</u>	<u>\$ 2,347,192</u>

Advance Refunding

On November 15, 2004, the City advance refunded a general obligation bond issue with a general obligation refunding note. Of this issue, the City issued \$29,360,000 of general obligation refunding bonds to refund 1995 bonds in the aggregate principal amount of \$3,250,000, the 1996 bonds in the aggregate principal amount of \$6,985,000, the 1997

CITY OF NORTHAMPTON, MASSACHUSETTS
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2010

bonds in the aggregate principal amount of \$2,895,000, the 1999 bonds in the aggregate principal amount of \$4,685,000 and the 2000 bonds in the aggregate principal amount of \$10,800,000 and together with the 1995 refunded bonds, the 1996 refunded bonds, the 1997 refunded bonds and the 1999 refunded bonds. The refunded bonds achieved a total savings of approximately 56.63% or \$1,890,061. As a result, the refunded bonds, including the business-type bonds, are considered to be defeased and the liability has been removed from the general obligation long-term debt and the business-type debt.

U. S. Bank National Association (the "escrow agent") has established an irrevocable trust fund designated the City of Northampton, Massachusetts Refunding Escrow Fund and moneys in the amount of \$31,453,283 have been set aside in the trust. The moneys in the refunding trust and any investments held as part of such fund shall be held in trust for the benefit of the owners of the refunded bonds and shall be applied by the Escrow Agent solely to the payment of the redemption price of and interest of the refunded bonds. These moneys will be used to purchase government obligations.

The balance, at market, of the refunding trust agreement at June 30, 2010 has been closed out.

Massachusetts Water Pollution Abatement Trust

The City has borrowed moneys from the Water Pollution Abatement Project Bond Resolution (Pool Loan Program). Under this program the borrower shall receive, as a credit against the loan repayment then due on this bond, the loan subsidy amounts (earnings on the equity of the trust). The City currently has five loans as follows:

- a gross obligation of \$138,396 representing the gross principal and interest repayments amounts; of this loan subsidy amounts consists of \$44,559 resulting in a net loan repayment of \$93,837.
- a gross obligation of \$3,287,701 representing the gross principal and interest repayments amounts; of this loan subsidy amounts consists of \$667,226 resulting in a net loan repayment of \$2,620,475.
- a gross obligation of \$11,682,133 representing the gross principal and interest repayments amounts.
- a gross obligation of \$16,933,765 representing the gross principal and interest repayments amounts.
- a gross obligation of \$1,511,326 representing the gross principal and interest repayments amounts.

The following is a summary of the activity of the Water Pollution Abatement Project Bond Resolution:

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NOTES TO THE FINANCIAL STATEMENTS
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No. 97-1050

	Principal	Interest	Total	Less: Loan Subsidy Amount	Net Loan Repayments
Initial Loan Obligation	\$ 93,837	\$ 44,559	\$ 138,396	\$ 44,559	\$ 93,837
Repayments:					
Fiscal Year 2001	-	1,114	1,114	1,114	-
Fiscal Year 2002	5,213	4,073	9,286	4,073	5,213
Fiscal Year 2003	5,213	3,864	9,077	3,864	5,213
Fiscal Year 2004	5,214	3,656	8,870	3,656	5,214
Fiscal Year 2005	5,214	3,477	8,691	3,477	5,214
Fiscal Year 2006	5,213	3,239	8,452	3,239	5,213
Fiscal Year 2007	5,214	3,004	8,218	3,004	5,214
Fiscal Year 2008	5,214	2,743	7,957	2,743	5,214
Fiscal Year 2009	5,214	2,502	7,716	2,502	5,214
Fiscal Year 2010	5,214	2,258	7,472	2,258	5,214
	<u>\$ 46,914</u>	<u>\$ 14,629</u>	<u>\$ 61,543</u>	<u>\$ 14,629</u>	<u>\$ 46,914</u>

No. DW-04-05A

	Principal	Interest	Total	Less: Loan Subsidy Amount	Net Loan Repayments
Initial Loan Obligation	\$ 2,241,713	\$ 1,045,987	\$ 3,287,700	\$ 667,226	\$ 2,620,474
Repayments:					
Fiscal Year 2007	-	28,309	28,309	16,478	11,831
Fiscal Year 2008	93,387	101,675	195,062	49,439	145,623
Fiscal Year 2009	96,850	96,920	193,770	48,147	145,623
Fiscal Year 2010	99,448	93,006	192,454	46,833	145,621
	<u>\$ 1,952,028</u>	<u>\$ 726,077</u>	<u>\$ 2,678,105</u>	<u>\$ 506,329</u>	<u>\$ 2,171,776</u>

No. DW-04-05

	Principal	Interest	Total	Less: Loan Subsidy Amount	Net Loan Repayments
Initial Loan Obligation	\$ 9,612,283	\$ 2,069,850	\$ 11,682,133	\$ -	\$ 11,682,133
Repayments:					
Fiscal Year 2008	379,098	205,009	584,107	-	584,107
Fiscal Year 2009	403,478	180,629	584,107	-	584,107
Fiscal Year 2010	411,629	172,478	584,107	-	584,107
	<u>\$ 8,418,078</u>	<u>\$ 1,511,734</u>	<u>\$ 9,929,812</u>	<u>\$ -</u>	<u>\$ 9,929,812</u>

CITY OF NORTHAMPTON, MASSACHUSETTS
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2010

No. DW-05-18

	Principal	Interest	Total	Less: Loan Subsidy Amount	Net Loan Repayments
Initial Loan Obligation	\$ 14,000,000	\$ 2,933,765	\$ 16,933,765	\$ -	\$ 16,933,765
Repayments:					
Fiscal Year 2008	552,144	217,681	769,825	-	769,825
Fiscal Year 2009	587,653	263,081	850,734	-	850,734
Fiscal Year 2010	599,525	251,209	850,734	-	850,734
	<u>\$ 12,260,678</u>	<u>\$ 2,201,794</u>	<u>\$ 14,462,472</u>	<u>\$ -</u>	<u>\$ 14,462,472</u>

No. DW-05-18A

	Principal	Interest	Total	Less: Loan Subsidy Amount	Net Loan Repayments
Initial Loan Obligation	\$ 1,250,000	\$ 261,326	\$ 1,511,326	\$ -	\$ 1,511,326
Repayments					
Fiscal Year 2010	55,496	20,070	75,566	-	75,566
	<u>\$ 1,194,504</u>	<u>\$ 241,256</u>	<u>\$ 1,435,760</u>	<u>\$ -</u>	<u>\$ 1,435,760</u>

Legal Debt Limit

Under Section 10 of Chapter 44 of the Massachusetts General Laws, a City may authorize indebtedness up to a limit of 5 percent of the equalized valuation of the City. Debt issued in accordance with this section of the law is designated as being "inside the debt limit." The City's inside debt at June 30, 2010, totaled \$14,615,914.

In addition, the City is authorized to incur debt outside of that limit for specific purposes. Such debt, when issued, is designated as being "outside the debt limit."

The following is a computation of the legal debt limit as of June 30, 2010:

Equalized Valuation-Real Estate and Personal Property (2008)		<u>\$ 3,381,331,100</u>
Debt Limit: 5 % of Equalized value		<u>\$ 169,066,555</u>
Total Debt Outstanding		
Governmental Activity Debt	\$ 30,900,914	
Less: Debt Outside Debt Limit	<u>18,620,000</u>	\$ 12,280,914
Business-Type Activity Debt	\$ 33,135,288	
Less: Debt Outside Debt Limit	<u>30,800,288</u>	<u>2,335,000</u>
		<u>\$ 14,615,914</u>
Inside Debt Excess Borrowing Capacity at June 30, 2010		<u>\$ 154,450,641</u>

CITY OF NORTHAMPTON, MASSACHUSETTS
NOTES TO THE FINANCIAL STATEMENTS
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Loans Authorized and Unissued - Memorandum Only

Under the general laws of the Commonwealth of Massachusetts, a City must authorize debt at a City Council meeting. This authorized debt does not have to be actually issued at that time and remains authorized until the debt is actually issued or City Council votes to rescind the authorized debt.

The loan authorizations of the governmental activities as of June 30, 2010, which are not reflected in the City's financial statements are as follows:

<u>Date</u> <u>Authorized</u>	<u>Purpose</u>	<u>Amount</u>
11/16/06	Extraordinary repairs to three schools as follows:	
	Bridge Street clock and public address system	\$ 50,000
11/16/06	Drainage construction and reconstruction	250,000
07/26/07	Police facility construction	480,000
08/21/08	Police facility construction	12,020,000
07/06/09	Conservation easement or restriction	550,000
03/04/10	Purchase of Bean Farm through CPA	910,000
04/15/10	Energy conservation improvements to public buildings	6,500,000
05/20/10	SVAHS energy conservation improvements	646,400
05/20/10	Jackson Street school energy conservation improvements	110,375
06/17/10	Department of public works architectural improvements	800,000
		<u>\$ 22,316,775</u>

The loan authorizations of the business-type activities as of June 30, 2010, which are not reflected in the City's financial statements are as follows:

<u>Date</u> <u>Authorized</u>	<u>Purpose</u>	<u>Amount</u>
	Sewer Fund:	
05/20/10	Wastewater management plan	<u>\$ 900,000</u>
	Water Fund:	
03/19/09	Well chlorination and upgrades	<u>\$ 695,000</u>
	Solid Waste Fund:	
10/06/05	Engineering and Permitting Services for the Landfill	<u>\$ 275,000</u>

H. Stabilization Fund

Under Section 5B of Chapter 40 of the Massachusetts General Laws, the City may for the purpose of creating a stabilization fund appropriate in any year an amount not exceeding ten percent of the amount raised in the preceding year by taxation of real estate and tangible personal property or such larger amount as may be approved by the Emergency Finance Board. The aggregate amount in the fund at any time shall not exceed ten percent of the equalized valuation of the City and any interest shall be added to and become a part of the fund. The stabilization fund may be appropriated in a City by the City

CITY OF NORTHAMPTON, MASSACHUSETTS
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Council for any lawful purpose. At June 30, 2010, \$712,542 has been set aside in a stabilization fund, which is classified as a major fund in the governmental funds financial statements.

4. OTHER INFORMATION

A. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters. The City has obtained a variety of commercial liability insurance policies which passes the risk of loss listed above to independent third parties.

Settlement claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

B. City Council Votes - Fiscal Year 2011

The financial statements of the City of Northampton as of June 30, 2010 do not reflect the fiscal year 2011 budget approved by the City Council on June 17, 2010, with the exception of Unreserved Fund Balance-Designated for Subsequent Years' Expenditures and Reserved Retained Earnings as described below. The City Council has authorized a fiscal year 2011 operating and capital budget as follows:

CITY OF NORTHAMPTON, MASSACHUSETTS
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Governmental Funds:

<i>From Tax Levy</i>	\$ 64,175,792
<i>From Parking Meter Receipts</i>	1,393,875
<i>From Community Preservation Funds</i>	1,137,108
<i>From Business-Type Funds:</i>	
Sewer fund receipts	1,638,743
Water fund receipts	660,366
Solid waste fund receipts	584,483

From Other Available Funds:

Major Funds:

Designated for Subsequent Years' Expenditures:

Stabilization fund	80,000
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Nonmajor Governmental Funds:

Designated for Subsequent Years' Expenditures:

Ambulance fund	586,512
Sale of cemetery lots	5,000
Cemetery perpetual care funds	5,000
Conservation wetlands fees	4,086
Municipal waterways fund	4,086
Comcast 1 - net reserve	165,000
	<u>\$ 70,440,051</u>

Business Type-Funds:

From sewer receipts	\$ 4,786,955
From sewer retained earnings	193,436
	<u>\$ 4,980,391</u>

From water receipts	\$ 5,466,242
From water retained earnings	1,179,823
	<u>\$ 6,646,065</u>

From solid waste receipts	\$ 3,314,106
	<u>\$ 3,314,106</u>

C. Contingent Liabilities

Litigation

Various cases are pending against the City at June 30, 2010. The amount of the claims cannot be estimated at the present time. As a result, the potential loss, if any on these claims has not been recorded on the financial statements.

CITY OF NORTHAMPTON, MASSACHUSETTS
NOTES TO THE FINANCIAL STATEMENTS
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Federal Financial Assistance

The City receives significant financial assistance from numerous federal and state agencies in the form of grants and entitlements. Expenditures of funds under these programs require compliance with the grant agreements and are subject to audit procedures prescribed under the Single Audit Act Amendments of 1996. Any disallowed expenditures resulting from such audits become a liability of the City.

The outcome of lawsuits and any findings with respect to disallowed expenditures is not expected to materially affect the financial condition of the City.

D. Landfill Closure and Postclosure Cost - Northampton Regional Sanitary Landfill

The City of Northampton operates and owns a landfill. The City landfill is operating under a permit dated January 11, 1994 issued by the Commonwealth of Massachusetts Department of Environmental Protection. The permit is an authorization to operate the Phase 2 Expansion of the landfill. Phase 3 has begun to be constructed with the City providing authorization to borrow in the amount of \$3,680,000. The estimated useful life of the facility is 13.4 years from the date of the permit at an estimated filling rate of 110 tons a day.

The City received a grant in the amount of \$5,656,912 from the Commonwealth of Massachusetts for Phase 1 and Phase 2 of the construction of the landfill. The total cost of Phases 1, 2 and 3 was \$11,187,743 including City funds. Sixty percent of the grant is a no interest loan with repayment of the loan to begin no later than one year after completion of the construction of the facility at a quarterly payment of \$94,281.86.

The City completed Phase 4 in fiscal year 2003. The final cost of phase 4 was \$1,600,000.

In fiscal year 2004, the capping of cell 1 was completed. A contract in the amount of \$734,810 had been awarded for the construction of Phase 4.

As a requirement of the grant the City must make the following financial assurances:

Operational Fund - The City shall provide adequate financial assurances to ensure that adequate funds will be available to maintain and operate the facility on a day-to-day basis through the use of an operational fund.

Closure Fund - The City must establish a "landfill closure fund" to be funded through a phased-in schedule as follows:

Fiscal Years 1991 - 1993	\$50,000 per year
Fiscal Years 1994 - 1995	\$75,000 per year
Fiscal Year 1996	\$100,000 per year
Fiscal Years 1997 - 2003	\$125,000 per year

On June 30, 2010 the landfill closure fund is maintained in the solid waste business-type fund in the amount of \$2,064,366 of which the balance consists of \$4,571,705 in

CITY OF NORTHAMPTON, MASSACHUSETTS
NOTES TO THE FINANCIAL STATEMENTS
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appropriated amounts; \$2,567,134 from the solid waste enterprise fund, \$68,959 in expenditures; \$5,693,957 in transfers out and \$688,443 in interest earnings.

The City has reflected \$4,200,000 as the estimate of the landfill maintenance and monitoring costs as a liability at June 30, 2010, in the business-type activities of the government-wide financial statements. The amount is based on estimates of what it would cost to perform all future post closure care. Actual costs may be higher due to inflation, changes in technology, or changes in regulations.

E. Pension Plan

Plan Description

The City contributes to the System, a cost-sharing multiple-employer defined benefit pension plan administered by the Northampton Contributory Retirement Board. Substantially, all employees are members of the System, except for public school teachers and administrators who are members of Commonwealth of Massachusetts Teachers' Retirement System to which the City does not contribute. Pension benefits and administrative expenses paid by the Teachers' Retirement Board are the legal responsibility of the Commonwealth. The amount of these on-behalf payments totaled approximately \$7,559,186 for the fiscal year ending June 30, 2010, and, accordingly, are reported in the general fund as intergovernmental revenues and employee benefit expenditures.

The System provides retirement, disability and death benefits to plan members and beneficiaries. Chapter 32 of the Massachusetts General Laws assigns authority to establish and amend benefit provisions of the plan. Cost of living adjustments granted between 1981 and 1987, and any increases in other benefits imposed by the Commonwealth's state law during those years are borne by the Commonwealth and are deposited into the pension fund. Cost-of-living adjustments granted after 1997 must be approved by the Northampton Retirement Board and are borne by the System. The System issues a publicly available unaudited financial report in accordance with guidelines established by the Commonwealth's PERAC. That report may be obtained by contacting the System located at 210 Main Street, City Hall, Northampton, Massachusetts.

At December 31, 2009, the System's membership consists of the following:

Active Members	637
Inactive Members	151
Retired Members, Beneficiaries and Survivors	343
	<u>1,131</u>

Funding Policy

Plan members are required to contribute to the System at rates ranging from 5% to 11% of annual covered compensation. The City is required to pay into the System its share of the

CITY OF NORTHAMPTON, MASSACHUSETTS
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system-wide actuarial determined contribution that is apportioned among the employers based on active current payroll. Administrative expenses are funded through investment earnings. The current and two preceding fiscal years apportionment of the annual pension cost between the employers required the City to contribute 96% of the total. Chapter 32B of the Massachusetts General Laws governs the contributions of plan members and the City.

The City's contribution to the System for the fiscal years ended June 30, 2010, 2009 and 2008 is shown below, which equaled its required contribution for each fiscal year.

Year Ended June 30	City's Contribution
2010	\$ 3,842,388
2009	3,665,262
2008	3,535,959

The following schedules are presented in accordance with the GASB No. 25.

Schedule of Funding Progress
(Dollar amounts in thousands)

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) Entry Aid (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll ((B-A)/C)
01/01/10	\$ 76,045	\$ 116,637	\$ 40,592	65%	\$ 22,556	180%
01/01/08	\$ 71,799	\$ 108,846	\$ 37,047	66%	\$ 21,754	170%
01/01/07	\$ 65,385	\$ 101,978	\$ 36,593	64%	\$ 20,336	180%

The required information presented above was determined as part of the actuarial valuations at the dates indicated. The last actuarial valuation was prepared by the Stone Consulting, Inc. as of January 1, 2010. The actuarial cost method of the plan has been determined in accordance with the individual entry age normal actuarial cost method. Significant actuarial assumptions used in the valuation include (a) a rate of return on the investment of present and future assets of 7.75 % a year compounded annually, (b) projected salary, including longevity, increases of approximately 4.50% a year per member.

The total unfunded actuarial liability at January 1, 2010 is as follows:

Active members	\$ 52,230,978
Inactive and retired members and beneficiaries	64,406,333
Total actuarial liability	\$ 116,637,311
Assets	76,045,491
Unfunded actuarial liability	<u>\$ 40,591,820</u>

CITY OF NORTHAMPTON, MASSACHUSETTS
NOTES TO THE FINANCIAL STATEMENTS
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Reporting Policies

The funds of the Northampton Employees Retirement System are accounted for under the accrual basis. Under the accrual basis of accounting, all revenues and expenditures are accrued and investments are amortized to value. The books are maintained on a calendar year basis from January 1st to December 31st in accordance with the standards and procedures outlined by the Commissioner of the Public Employees Retirement Administration.

Investments are reported in accordance with PERAC requirements.

F. Other Post Employment Benefits Payable

GASB Statement No. 45

The cost of post employment benefits generally should be associated with the periods in which costs occur rather than in the future year when it will be paid. The City adopted the requirements of GASB Statement No. 45 during the year ended June 30, 2009 and thus recognizes the cost of post employment benefits in the year when the employee services are received, reports the accumulated liability from prior years and provides information useful in assessing potential demands on the City's future cash flows.

Plan Description

-The City provides the following plan types, Health New England HMO and Health New England PPO, MedPlus PPO and Medicare Advantage Plan.

-The group term life insurance - \$5,000.

The number of participants as of July 1, 2009 follows:

Active members	712
Retirees	539
Spouses of retirees	263
Total	<u>1,514</u>

Funding Policy

The contribution requirements of plan members and the City are established and may be amended through City policy and member contracts. The required contribution is based on the projected pay-as-you-go financing requirements. For the 2010 fiscal year, total City premiums plus implicit costs for the retiree medical program are \$3,039,449 consisting of \$2,927,293 for governmental activities and \$112,156 for the business-type activities.

CITY OF NORTHAMPTON, MASSACHUSETTS
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Annual OPEB Cost and Net OPEB Obligation

The City's annual other postemployment benefit ("OPEB") cost (expense) is calculated based on the annual required contribution of the employer ("ARC"), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty (30) years. The following table shows the components of the City's annual OPEB costs for the fiscal year, the amount actually contributed to the plan and changes in the City's net OPEB obligation to the plan:

	Governmental Activities	Business-type Activities	Total
Annual required contribution	\$ 5,898,988	\$ 226,013	\$ 6,125,001
Interest on net OPEB obligation	181,217	6,943	188,160
Adjustment to annual required contribution	(171,153)	(6,559)	(177,712)
Annual OPEB cost (expense)	5,909,052	226,397	6,135,449
Contributions made during the fiscal year	2,981,758	114,242	3,096,000
Increase in net OPEB obligation	2,927,294	112,155	3,039,449
Net OPEB Obligation - beginning of year	4,530,422	173,578	4,704,000
Net OPEB Obligation - end of year	<u>\$ 7,457,716</u>	<u>\$ 285,733</u>	<u>\$ 7,743,449</u>

The City's annual OPEB cost, the percentage of the annual OPEB cost contributed to the plan, and the net OPEB obligation for the 2010 fiscal year and the two preceding years were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage Annual OPEB Cost Contributed	Net OPEB Obligation
06/30/08	N/A	N/A	N/A
06/30/09	\$ 8,789,000	46.48%	\$ 4,704,000
06/30/10	\$ 6,135,449	50.46%	\$ 7,743,449

Funded Status and Funding Process

As of July 1, 2009, the most recent valuation date, the plan was 0.0% funded. The actuarial liability for benefits was \$84,139,000, and the actuarial value of assets was 0.0 million, resulting in an unfunded actuarial accrued liability (UAAL) of \$84,139,000. As indicated in the actuarial valuation the covered payroll (annual payroll of active employees covered by the plan) was not available, and the ratio of the UAAL to the covered payroll was not available.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required

CITY OF NORTHAMPTON, MASSACHUSETTS
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2010

contribution of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Schedule of Funding Progress
(Dollar amounts in thousands)

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) Entry Aid (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll ((B-A)/C)
05/01/07	\$ -	\$ 110,552	\$ 110,552	0%	N/A	N/A
01/01/09	\$ -	\$ 84,139	\$ 84,139	0%	N/A	N/A

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The City OPEB actuarial valuation as of July 1, 2009 used the projected unit credit actuarial cost method. The OPEB liability is currently unfunded. The actuarial assumptions also a payroll growth rate of 3.61%. The unfunded actuarial accrued liability is being amortized over 30 years on a level dollar amount open basis. The remaining amortization period at July 1, 2009 is 29 years.

SUPPLEMENTARY SCHEDULES

CITY OF NORTHAMPTON, MASSACHUSETTS
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NON-MAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2010

	Fund Balances July 1, 2009	Revenues	Expenditures	Other Financing Sources (Uses)	Fund Balances June 30, 2010
Special Revenue:					
Federal and State Grants:					
School Grants	\$ 489,316	\$ 2,830,136	\$ 2,874,965	\$ -	\$ 444,487
Arts Lottery Council Grants	(23)	53,086	53,353	-	(290)
Community Development Grants	231,064	3,492,060	3,548,737	-	174,387
Council on Aging Grants	4,272	23,462	21,407	-	6,327
Disaster Relief and Hazard Grants	34,494	73,614	73,689	-	34,419
Economic Development Grants	120,016	48,655	99,633	-	69,038
Highway Grants	(1)	978,203	978,202	-	-
Library Grants	1,003	48,248	48,601	-	650
Other Programs and Grants	36,304	84,442	35,921	-	84,825
Public Safety Grants	127,490	546,339	528,576	-	145,253
Rail Trail Grants	59,722	7,900	30,659	-	36,963
Recycling Grants	20,437	-	-	-	20,437
Schools:					
School Lunch Revolving	27,961	917,550	888,177	-	57,334
School Lunch Commodities	-	43,590	43,590	-	-
Revolving Accounts	839,123	1,097,685	1,008,645	-	928,163
School Choice	1,638,156	1,261,180	1,031,451	-	1,867,885
E-Rate Telecommunications Reimbursements	29,703	18,503	48,198	(8)	-
Grant Indirect Expenses	77,957	23,732	2,467	-	99,222
Privately Funded Grants	14,515	82,130	78,171	-	18,474
State Special Education Reimbursement Fund	374,271	453,263	374,271	-	453,263
Other:					
Ambulance Fund	431,698	1,478,912	-	(1,203,607)	707,003
Athletic Leagues Revolving Fund	133,357	156,071	156,489	-	132,939
Clean Energy Choice Grant	-	207,932	136,576	-	71,356
Community Preservation Fund	2,232,616	1,266,493	1,763,871	(6,521)	1,727,717
Compost Revolving Fund	20	-	-	-	20
Connecticut River Channel Markers	14,542	15,118	17,149	-	12,511
Conservation Funds	14,419	11,147	4,301	(4,086)	17,179
Council on Aging Revolving Funds	16,412	78,802	71,884	-	23,330
Dog Revolving Fund	(5,745)	803	990	-	(5,932)
Dog Refund	62,695	-	-	-	62,695
Energy Grant	36,970	-	-	-	36,970
Fire Department Revolving Funds	136,932	249,594	217,610	-	168,916
Total Special Revenue	\$ 7,199,696	\$ 15,547,650	\$ 14,137,583	\$ (1,214,222)	\$ 7,395,541

CITY OF NORTHAMPTON, MASSACHUSETTS
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NON-MAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2010

	Fund Balances July 1, 2009	Revenues	Expenditures	Other Financing Sources (Uses)	Fund Balances June 30, 2010
Continued from Page 67	\$ 7,199,696	\$ 15,547,650	\$ 14,137,583	\$ (1,214,222)	\$ 7,395,541
Special Revenue (continued):					
Other (continued):					
Fire Outside Detail	2,372	17,129	16,365	-	3,136
Gifts & Donations	448,723	209,628	156,335	-	502,016
Handicapped Fund	4,306	-	-	-	4,306
Hazardous Waste Revolving	551	-	-	-	551
Cooley Dickinson Hospital Healthy Communities Grant	1,204	-	1,104	-	100
Innovative Enterprises Fund	3,000	-	-	-	3,000
Insurance Reimbursements	139	-	-	-	139
Internet Access and Technology	218,178	272,143	29,998	(165,000)	295,323
James House Beveridge Grant	-	20,000	-	-	20,000
James House Rental	-	2,500	2,000	-	500
J.F.K. Family and Aquatics Center Fund	21,940	96,273	84,752	-	33,461
Keg Tag Forfeit Revolving	468	-	-	-	468
Liquor Licenses Deposits	10,000	-	-	-	10,000
Municipal Waterways Fund	4,179	3,851	-	(4,086)	3,944
Northampton State Hospital Marketing	1,356	-	-	-	1,356
Parking Meter Reserves and Passes	825,552	-	-	104,950	930,502
Police Court Time	7,268	-	-	-	7,268
Police Outside Detail	27,224	426,963	399,131	-	55,056
Premium on Loans	21,738	24,149	16,851	-	29,036
Public Works Grants Projects Revolving	58,320	38,932	15,016	-	82,236
Receipts Reserved for Payment of Debt	1	-	-	-	1
Recreation Revolving	104,423	135,008	148,968	-	90,463
Sale of Cemetery Lots	25,050	4,000	-	(5,000)	24,050
Sale of Land	437,497	-	1,000	-	436,497
Sale of Lumber	230,832	-	215,000	-	15,832
Septic Repair Loan Repayments	55,927	6,273	7,471	-	54,729
Stormwater Management	(888)	-	-	-	(888)
Survival Center Capital Fund	1,250	3,250	-	-	4,500
Tax Title Attorney Fees Revolving	2,941	14,930	4,026	(10,900)	2,945
Affordable Housing Fund	986	6	-	-	992
Total Special Revenue Page 68	\$ 9,714,233	\$ 16,822,685	\$ 15,235,600	\$ (1,294,258)	\$ 10,007,060

CITY OF NORTHAMPTON, MASSACHUSETTS
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NON-MAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2010

	Fund Balances July 1, 2009	Revenues	Expenditures	Other Financing Sources (Uses)	Fund Balances June 30, 2010
Continued from Page 68					
Special Revenue (continued):	\$ 9,714,233	\$ 16,822,685	\$ 15,235,600	\$ (1,294,258)	\$ 10,007,060
Other (continued):					
Conservation Land Purchase Fund	296,396	383,337	439,575	-	240,158
Drug Forfeiture Fund	15,595	2,696	10,915	-	7,376
E. Lyman Fund	37	3	-	-	40
Hampton Gardens Fund	5,645	226	5,871	-	-
Library Fund	63,712	5,433	-	-	69,145
Park Street Improvements Fund	1,815	155	-	-	1,970
Smith Vocational High School Fund	172,139	782	-	(37,019)	135,902
Total Special Revenue Funds	10,269,572	17,215,317	15,691,961	(1,331,277)	10,461,651
Capital Projects:					
City Hall Exterior Upgrades	9,656	-	-	-	9,656
City-Wide Install Voice Telephone System	198,188	-	12,220	-	185,968
Install Fiber Optic Wide Area Network	160,659	-	65,024	-	95,635
Management of Information Systems 5 Year Plan	(15,714)	-	18,375	-	(34,089)
Department of Public Works Projects	272,515	-	99,930	9,057	181,642
Forbes Library Renovations	39,183	-	21,013	-	18,170
Northampton Public Schools Projects	191,672	-	67,201	-	124,471
Public Safety Projects	(1,016,078)	-	76,475	-	(1,092,553)
Smith Vocational and Agricultural High School Projects	43,465	-	28,299	-	15,166
Total Capital Projects	(116,454)	-	388,537	9,057	(495,934)
Perpetual Permanent Funds:					
Cemetery Perpetual Care Funds	644,706	5,900	-	-	650,606
Permanent Funds:					
Cemetery Funds	83,361	62,023	-	(5,000)	140,384
Total Non-Major Governmental Funds	\$ 10,881,185	\$ 17,283,240	\$ 16,080,498	\$ (1,327,220)	\$ 10,756,707

CITY OF NORTHAMPTON, MASSACHUSETTS
SCHEDULE OF REAL ESTATE AND PERSONAL PROPERTY TAXES, ROLLBACK TAXES,
DEFERRED PROPERTY TAXES AND COMMUNITY PRESERVATION SURCHARGE
JULY 1, 2009 TO JUNE 30, 2010

	Uncollected Taxes July 1, 2009	Commitments	Abatements and Adjustments	Collections Net of Refunds and Overpayments	Uncollected Taxes June 30, 2010	Uncollected Taxes Per Detail June 30, 2010
Real Estate Taxes:						
Levy of 2010	\$ -	\$ 39,264,156	\$ 313,021	\$ 38,195,680	\$ 755,455	\$ 755,455
Levy of 2009	718,845	-	134,807	395,178	188,860	188,860
Levy of 2008	150,906	-	77,120	73,386	400	400
Levy of 2007	2,640	-	2,640	-	-	-
	<u>872,391</u>	<u>39,264,156</u>	<u>527,588</u>	<u>38,664,244</u>	<u>944,715</u>	<u>944,715</u>
Personal Property Taxes:						
Levy of 2010	-	1,102,381	282	1,070,226	31,873	31,873
Levy of 2009	50,345	-	(1)	25,559	24,787	24,787
Levy of 2008	19,815	-	-	271	19,544	19,544
Levy of 2007	12,689	-	-	199	12,490	12,490
Levy of 2006	12,101	-	-	71	12,030	12,030
Prior Years	353,356	-	75	630	352,651	352,651
	<u>448,306</u>	<u>1,102,381</u>	<u>356</u>	<u>1,096,956</u>	<u>453,375</u>	<u>453,375</u>
Total Real Estate and Personal Property Taxes	<u>\$ 1,320,697</u>	<u>\$ 40,366,537</u>	<u>\$ 527,944</u>	<u>\$ 39,761,200</u>	<u>\$ 1,398,090</u>	<u>\$ 1,398,090</u>
Rollback Taxes	<u>\$ 1,580</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,580</u>	<u>\$ 1,580</u>
Deferred Property Taxes	<u>\$ 153,560</u>	<u>\$ 21,868</u>	<u>\$ 32</u>	<u>\$ 36,684</u>	<u>\$ 138,712</u>	<u>\$ 138,712</u>
Community Preservation Surcharge						
Levy of 2010	\$ -	\$ 848,667	\$ 19,455	\$ 814,610	\$ 14,602	\$ 14,602
Levy of 2009	12,186	-	2,315	7,461	2,410	2,410
Levy of 2008	2,249	-	885	1,364	-	-
Levy of 2007	47	-	47	-	-	-
Total Community Preservation Surcharge	<u>\$ 14,482</u>	<u>\$ 848,667</u>	<u>\$ 22,702</u>	<u>\$ 823,435</u>	<u>\$ 17,012</u>	<u>\$ 17,012</u>

CITY OF NORTHAMPTON, MASSACHUSETTS
SCHEDULE OF MOTOR VEHICLE EXCISE AND BOAT EXCISE TAXES
JULY 1, 2009 TO JUNE 30, 2010

	Uncollected Taxes July 1, 2009	Commitments	Abatements and Adjustments	Collections Net of Refunds and Overpayments	Uncollected Taxes June 30, 2010	Uncollected Taxes Per Detail June 30, 2010
Motor Vehicle Excise Taxes:						
Levy of 2010	\$ -	\$ 1,917,859	\$ 46,746	\$ 1,742,805	\$ 128,308	\$ 128,308
Levy of 2009	107,654	257,074	33,079	299,433	32,216	32,216
Levy of 2008	40,202	1,451	5,621	10,930	25,102	25,102
Levy of 2007	30,616	394	590	4,760	25,660	25,660
Levy of 2006	21,641	104	161	2,181	19,403	19,403
Prior Years	679,457	-	3,684	3,478	672,295	672,295
	879,570	2,176,882	89,881	2,063,587	902,984	902,984

Boat Excise Taxes:						
Levy of 2010	-	7,728	159	6,262	1,307	1,307
Levy of 2009	1,336	-	25	273	1,038	1,038
Levy of 2008	1,134	-	-	118	1,016	1,016
Levy of 2007	2,690	-	213	608	1,869	1,869
Levy of 2006	736	-	53	(53)	736	736
Prior Years	31,680	-	268	-	31,412	31,412
	37,576	7,728	718	7,208	37,378	37,378

Total Motor Vehicle Excise and Boat Excise Taxes	\$ 917,146	\$ 2,184,610	\$ 90,599	\$ 2,070,795	\$ 940,362	\$ 940,362
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CITY OF NORTHAMPTON, MASSACHUSETTS
SCHEDULE OF TAX LIENS, COMMUNITY PRESERVATION TAX LIENS AND TAXES IN LITIGATION
JULY 1, 2009 TO JUNE 30, 2010

	Uncollected Accounts July 1, 2009	Commitments	Abatements and Adjustments	Collections Net of Refunds and Overpayments	Uncollected Accounts June 30, 2010	Uncollected Accounts Per Detail June 30, 2010
Tax Liens	\$ 442,469	\$ 225,962	\$ (26,782)	\$ 268,239	\$ 426,974	\$ 426,496
Community Preservation Tax Liens	\$ 2,032	\$ 3,330	\$ -	\$ 2,858	\$ 2,504	\$ 2,504
Taxes in Litigation	\$ 6,794	\$ -	\$ -	\$ -	\$ 6,794	\$ 6,794